

**California Department of Industrial Relations
Division of Workers' Compensation**

**2002 Audits of Workers' Compensation Insurers, Self-Insured Employers,
and Third-Party Administrators**

April 1, 2003

2002 Audit Results

This thirteenth annual workers' compensation audit report summarizes the accomplishments of the Audit Unit of the Division of Workers' Compensation for all audits commencing during calendar year 2002.

Assembly Bill 749, effective January 1, 2003 has resulted in major changes to California workers' compensation law and mandates significant changes to the audit program (see pg. 28) beginning 2003.

Scope

The Audit Unit of the Division of Workers' Compensation completed a total of 55 audits which began in 2002, an increase of six audits from the 49 audits conducted in 2001. Of these, 46 were randomly selected and the remaining 9 were non-random, or "targeted" audits. Non-random audits were selected either based upon results from prior audits or following investigations resulting from complaints received by the Division of Workers' Compensation. The total number of audit subjects included 25 insurance companies, 11 self-administered, self-insured employers, and 19 third-party administrators (TPAs).

At all audits except for two of the three "Civil Penalty Investigations" (See below), claim files were selected for audit on a random basis, with the number of medical-only, indemnity and denied cases being selected based on the numbers of claims in each of those populations for the audit subject. In addition, if any complaints were received regarding possible violations of the Labor Code or regulations of the Administrative Director, each claim file related to the complaint was audited. The number of files audited at an adjusting location typically ranges from 100 to approximately 300 files for some audits. The numbers of claims audited are based upon the total number of claims at the adjusting location and the number of complaints received by the Division of Workers' Compensation related to claims handling practices. Pursuant to Title 8, California Code of Regulations, Section 10106(c)(2), either a "short sample" or a "full sample" of indemnity claims is audited, depending on the claims administrator's performance as measured in certain key areas after the short sample is audited.

In 2002, compliance officers audited 8,861 claim files, of which 3,638 were randomly selected claims in which indemnity benefits were paid or were expected to be paid, 2,699 were randomly selected medical-only claims, 1,992 were randomly selected claims in which the employer or insurer denied all liability, 363 were selected based on complaints received by the Division of

Workers' Compensation, and 169 were designated as "additional" files. "Additional" files include:

- Claims targeted based on criteria relevant to a non-random audit but for which no specific complaints had been received.
- Companion files to claims selected for audit as part of a random sample or because of a complaint – that is, claims in which it was necessary to audit the companion files to determine if all benefits were provided in the file selected.
- Claims audited in excess of the number of claims in the random sample that were audited because the files selected were incorrectly designated on the log.

Findings

As a result of audits conducted during the calendar year 2002, the Audit Unit issued 12,654 administrative penalty assessments to administrators totaling \$2,004,890. There were 579 claims in which injured workers were owed unpaid compensation totaling \$850,385.36, an average of \$1,468.71 per file in which there was unpaid compensation. The unpaid compensation is broken down as follows: \$389,894.05 in temporary disability indemnity and salary continuation in lieu of temporary disability (45.85% of the unpaid compensation), \$311,591.03 in permanent disability indemnity (36.64% of the unpaid compensation), \$44,329.83 in vocational rehabilitation maintenance allowance (5.21% of the unpaid compensation), \$91,243.44 in 10% self-imposed increases for late indemnity payments (10.73% of the unpaid compensation), \$0 in death benefits (0% of the unpaid compensation), and \$13,327.01 in interest and penalty and/or unreimbursed medical expenses (1.57% of the unpaid compensation).

The average number of penalty citations per audit subject was 230, the average amount per penalty assessment was \$158, and the average total in penalty assessments per audit was \$36,452. Most assessments were found in the indemnity, complaint, and denied claims, and although very few penalty assessments were found in medical-only claims, the time involved in reviewing them was minimal.

Of those audits demonstrating poor performance in 2002 audits, 4 resulted in the assessment of more than \$100,000 each in administrative penalties:

1. 99 Cents Only Stores in City of Commerce, CA.

This audit subject was a randomly selected audit.

- 1865 penalties were assessed, totaling \$289,015..
- 57 Notices of Compensation Due totaling \$177,389.95 were issued.
- 73.77% of the randomly selected claims with accrued and payable indemnity had some unpaid indemnity.

- 47.92% of the randomly selected claims with temporary disability payments were assessed penalties for late first TD payments.
- 38.89% of the randomly selected claims with permanent disability payments were assessed penalties for late first PD payments.
- 59.09% of the randomly selected claims with scheduled indemnity payments were assessed penalties for late subsequent payments.
- 57.69% of the randomly selected claims in which there were requirements to issue routine benefit notices were assessed penalties for failure to issue notices.
- 82.28% of the randomly selected claims with the required to pay or object to bills for medical treatment within 60 days of receipt were assessed penalties for failure to timely object and/or failure to pay interest and penalty.
- 47.92% of the randomly selected claims with the required to pay or object to bills for medical-legal evaluation within 60 days of receipt were assessed penalties for failure to timely object and/or failure to pay interest and penalty.
- 87.18% of the randomly selected claims with the requirement to issue 90-day vocational rehabilitation notices were assessed penalties for late notices or failure to issue the notices.
- 100.00% of the randomly selected claims with the requirement to issue Notices of Potential Eligibility for vocational rehabilitation upon knowledge of potential medical eligibility were assessed penalties for late notices or failure to issue the notices.
- 66.67% of the randomly selected claims with the requirement to issue Notices of Non-eligibility for Vocational Rehabilitation Services were assessed penalties for late notices or failure to issue notices.
- 76.32% of the randomly selected claims with the requirement to issue notices advising employees of the right to obtain an evaluation by a Qualified Medical Examiner were assessed penalties for late notices or failure to issue the notices.

In addition to the administrative penalties and following conclusion of the 99 Cents Only Stores appeal to the audit findings, the Audit Unit will be filing civil penalty charges and requesting the Administrative Director set a hearing for the 99 Cents Only Stores to show cause as to why the Administrative Director should not issue a civil penalty of up to \$100,000 against it.

Under 2002 regulations, the Audit Unit will return for a non-random audit within three years.

2. Cambridge Integrated Services, Inc. / City of Los Angeles in Pasadena, CA.

This audit subject was targeted for audit. Claim files involving complaints resulted in the audit of several additional self-insured employer clients of this third party administrator.

- 1085 penalties were assessed, totaling \$115,875. These broke out 701 to Cambridge and its clients totaling \$85,400 and 384 to the City of Los Angeles totaling \$30,475.
- All claim files reviewed were targeted because of complaints.

- Targeted claims with the requirement to pay or object to bills for medical treatment within 60 days of receipt were assessed penalties for failure to timely object and failure to pay interest and penalty – 665 penalties totaling \$45,225 were assessed.
- Targeted claims with the requirement to pay or object to bills for medical-legal evaluation within 60 days of receipt were assessed penalties for failure to timely object and failure to pay interest and penalty – 89 penalties totaling \$7,750 were assessed.
- Targeted claims with the requirement to pay and/or comply with WCAB Awards were assessed penalties for failure to pay or pay timely, and failure to comply – 21 penalties totaling \$31,900 were assessed.
- Targeted claims which showed documentation of bills for medical treatment and medical-legal evaluation but the bill was missing from the claim file – 310 penalties totaling \$31,000 were assessed.

In addition to the administrative penalties the audit resulted in two civil penalty assessments, one against Cambridge Integrated Services, Inc. and the other against City of Los Angeles pursuant to Labor Code Section 129.5(d).

The Audit Unit will return for a non-random audit within three years.

3. Vons Companies, Inc. in Arcadia, CA.

This audit subject was randomly selected for audit.

- 590 penalties were assessed, totaling \$117,945.
- 36 Notices of Compensation Due totaling \$37,930.16 were issued.
- 31.48% of the randomly selected claims with accrued and payable indemnity had some unpaid indemnity.
- 35.25% of the randomly selected claims in which there were requirements to issue routine benefit notices were assessed penalties for failure to issue notices.
- 53.97% of the randomly selected claims with the requirement to issue 90-day vocational rehabilitation notices were assessed penalties for late notices or failure to issue the notices.
- 50.00% of the randomly selected claims with the requirement to issue Notices of Potential Eligibility for vocational rehabilitation upon knowledge of potential medical eligibility were assessed penalties for late notices or failure to issue the notices.
- 57.89% of the randomly selected claims with the requirement to issue Notices of Non-eligibility for Vocational Rehabilitation Services were assessed penalties for late notices or failure to issue notices.
- 40.26% of the randomly selected claims with the requirement to issue notices advising employees of the right to obtain an evaluation by a Qualified Medical Examiner were assessed penalties for late notices or failure to issue the notices.

Under 2002 regulations, the Audit Unit will return for a non-random audit within three years.

4. Zurich Services Corporation, Inc. in Woodland Hills, CA

This audit subject was randomly selected for audit.

- 467 penalties were assessed, totaling \$100,770
- 24 Notices of Compensation Due totaling \$33,023.56 were issued.
- 32.97% of the randomly selected claims with temporary disability payments were assessed penalties for late first TD payments.
- 38.36% of the randomly selected claims with scheduled indemnity payments were assessed penalties for late subsequent payments.
- 46.97% of the randomly selected claims in which there were requirements to issue routine benefit notices were assessed penalties for failure to issue notices.
- 73.68% of the randomly selected claims with the requirement to issue 90-day vocational rehabilitation notices were assessed penalties for late notices or failure to issue the notices.
- 65.52% of the randomly selected claims with the requirement to issue Notices of Potential Eligibility for vocational rehabilitation upon knowledge of potential medical eligibility were assessed penalties for late notices or failure to issue the notices.
- 55.56% of the randomly selected claims with the requirement to issue Notices of Non-eligibility for Vocational Rehabilitation Services were assessed penalties for late notices or failure to issue notices.
- 34.21% of the randomly selected claims with the requirement to issue notices advising employees of the right to obtain an evaluation by a Qualified Medical Examiner were assessed penalties for late notices or failure to issue the notices.

Under 2002 regulations, the Audit Unit will return for a non-random audit within three years.

Performance Standards Affecting Audit Sample Size and Future Audit Selection

In November 1998, regulations were adopted to establish sampling methodology consisting of a two-tiered approach for the random selection of indemnity files. These regulations contain performance standards in key areas that establish a process whereby fewer files are reviewed at adjusting locations that are performing well in these areas, and greater numbers of files are reviewed at locations that are not performing well in these areas. The regulation changes also include final audit result criteria whereby the audit subject will be removed from the random audit selection pool for three years if the performance standards are met, or the audit subject will be scheduled for a return, non-random audit within one to three years if certain of the standards are not met. The following standards were established:

- **Abbreviated Sample versus Full Sample of Indemnity Files and Removal from Random Selection Pool**

If, after the completion of an abbreviated sample of indemnity claims, performance in those claims fails to meet standards in three key areas, the full sample of indemnity files besides the sample of denied and medical-only files will be audited. However, if performance exceeds the standards in all of these key areas, the audit will be cut short after review of the abbreviated sample of indemnity files and the sample of denied and medical-only files. Following completion of the audit (including the samples of denied and medical-only files), if performance exceeds the standards in *all* of these key areas, the audit subject will be removed from the random selection pool for three years. The criteria in the key areas are as follows:

1. The number of randomly selected audited files with violations involving the failure to pay indemnity exceeds 20% of the audited files in which indemnity is accrued and payable and the average amount of unpaid indemnity exceeds \$200.00 per file in which indemnity is accrued and payable.¹
2. The number of randomly selected files with violations involving the late payments of indemnity exceeds 30% of the audited files in which those indemnity payments have been made.
3. The number of audited files with violations involving the failure to issue routine benefit notices exceeds 30% of the files in which there is a requirement to issue those notices.

- **Performance Standards Requiring a Return, Non-Random Audit**

If, following the completion of the audit, the audit subject fails to meet the unpaid indemnity standards (No. 1 above) or fails to meet *both* the late-paid indemnity and failure to issue benefit notice standards (Nos. 2 and 3 above), the Audit Unit will return for a non-random audit within one to three years based on poor audit results. High frequency of either late paid indemnity or failure to issue benefit notices *alone* does not merit a return, non-random audit.

¹ Note that if exactly 20% of claims with indemnity accrued and payable have some amount unpaid, it would take an average of \$1,000 in unpaid compensation per file with unpaid compensation to reach an average of \$200 in unpaid compensation per file in which indemnity is accrued and payable. As the percentage of files with unpaid compensation increases, the average amount per file with unpaid compensation needed to reach the \$200 average decreases.

For instance, if there are 100 files in an audit in which indemnity is accrued and payable, and 20 files each have \$1,000 in unpaid compensation, the \$20,000 in unpaid compensation averages \$200 (of the 100 files) per file in which indemnity is accrued and payable. If there are 25 files (25% of the 100) totaling \$20,000 in unpaid compensation, an average of \$800 in unpaid compensation (instead of \$1,000) will produce an average of \$200 in unpaid compensation per file in which indemnity is accrued and payable.

In addition, the Audit Unit shall return for a repeat non-random audit of denied files within one to three years of the results of an audit becoming final if there is more than one unsupported denial *and* the number of unsupported denials exceeds 5% of the audited denied claims.

- **2002 Performance Results**

In 2002, 52 of the 55 audits entailed line by line reviews of randomly selected claims (Pursuant to tables in Title 8, California Code of Regulations, Section 10107, the numbers of claims randomly selected are determined based upon the claims population of the audit subject). 41 of these 52 audits (78.8%) met or exceeded performance standards in key claims-handling areas following the review of either an abbreviated or expanded sample of indemnity, medical-only, and denied claim files; thereby performing well enough to avoid a return, non-random audit based on final audit results. Those audits are identified in **Exhibit 1D**.

On the basis of final audit results, the performance of 11 of the 52 audits (21.15%) warranted return, non-random audits within one to three years. Those audits are identified in **Exhibit 1E**.

Title 8, California Code of Regulations, Section 10111.1(e)(5), adopted in 1994, states, "No administrative penalties shall be assessed if the only violations found in an audit are violations which do not involve the denial of a claim without supporting documentation, or failure to pay or late payment of compensation, and the violations are found in 20% or less of the indemnity files audited." No audits met these standards in 2002.

Civil Penalty under Labor Code Section 129.5(d)

California Labor Code Section 129.5(d) states, in part:

"In addition to the penalty assessments permitted by subdivision (a), the administrative director may assess a civil penalty, not to exceed one hundred thousand dollars (\$100,000), upon finding, after hearing, that an employer, insurer, or third-party administrator for an employer has knowingly committed and has performed with a frequency as to indicate a general business practice any of the following:

- (1) Induced employees to accept less than compensation due, or made it necessary for employees to resort to proceedings against the employer to secure compensation due.
- (2) Refused to comply with known and legally indisputable compensation obligations.
- (3) Discharged or administered compensation obligations in a dishonest manner.
- (4) Discharged or administered compensation obligations in a manner as to cause injury the public or those dealing with the employer or insurer...."

Three of the 55 audits conducted in 2002 were conducted as part of civil penalty investigations based on information received which indicated the existence of claims practices for which the assessment of civil penalties under Labor Code Section 129.5(d) could be warranted. Two consisted of targeted samples of claims and the third of randomly selected indemnity claims.

As a result of investigations and audits conducted by the Civil Penalty Investigation Section of the Audit Unit, the Administrative Director assessed two separate civil penalties one against Cambridge Integrated Services, Inc. and the other against City of Los Angeles pursuant to Labor Code Section 129.5(d) in 2002.

Additionally, one civil penalty investigation and non-random audit from an earlier year, 2001 audits, Gates McDonald & Company remained unresolved.

The status of each of these matters is as follows:

1. Cambridge Integrated Services, Inc. and the City of Los Angeles in Pasadena, CA

This civil penalty investigation and audit was conducted based on the complaint of a lien collection service and other lien holders. The complaints allege Cambridge and the City of Los Angeles were failing to pay liens for medical bills and WCAB Awards, and if paid, issuing payment of liens for medical bills and WCAB Awards late. Also failing to pay the required interest and increase when liens for medical bills are paid late. Additionally, within the complaint documents are correspondence and checks, which appear to have been held for a considerable time beyond their creation dates before placing in the US mail as evidenced by metered stamps. This practice results in late issuance of time sensitive documents. Finally, allegations that Cambridge fails to properly include medical reports with bill review processes.

The investigation and audit consisted of the limited review of targeted complaint files and was directed towards the medical billing issues.

The third-party administrator and self-insured employer both agreed to pay separate \$50,000 civil penalties.

Both cooperated with the division throughout the audit process as evidence of good faith and subsequently stipulated to implement changes in its claim handling practices. These included:

- City of Los Angeles is to implement new procedures to reduce check-processing and mailing time for medical bill payments;
- City of Los Angeles is to provide its own self administering claims office and any third party administrator with a check log that will enable the administrator to determine the mailing date of the paid medical bills;
- Cambridge is to create and fill a position within the company called Corporate Trainer. The Corporate Trainer will be in charge of organizing the training of all Cambridge employees

who handle workers' compensation claims in California Labor Code and Title 8 of the California Code of Regulations;

- Cambridge and the City of Los Angeles agree to identify medical bills which were not paid timely and authorize the payment of the interest and increase pursuant to Labor Code Section 4603.2.

The Audit Unit also issued administrative penalties and required the parties' pay all back due interest and increase in accordance with its findings. The Audit Unit will return for a follow-up non-random audit within 3 years.

2. Golden Eagle Insurance Corporation in San Diego, CA.

This civil penalty investigation and audit was conducted based on information received from several vendors' of durable medical equipment. The complainants alleged that Golden Eagle failed to pay medical bills, failed to pay liens for medical bills, paid medical bills late, paid liens for medical bills late, and failed to pay the required interest and increase when medical bills or liens for medical bills were paid late. Also contained within the complaint documents are allegations of Golden Eagles' use of non-meritorious and frivolous objection to medical bills, inconsistent reasonableness of values, and forcing unnecessary litigation.

The investigation and audit consisted of the limited review of targeted complaint files and directed towards the medical billing issues.

There was no indication of a general business practice for which a civil penalty may be assessed under Labor Code Section 129.5(d), and the Audit Unit did not recommend that a civil penalty be assessed. Penalties were assessed only for individual violations involving medical bills.

3. State Compensation Insurance Fund in Glendale, CA.

This civil penalty investigation and audit was conducted based on information received by the Audit Unit about State Compensation Insurance Fund claim handling practice(s). The complaint alleged delaying creation of new claims, failure to provide timely medical treatment authorization, failure to issue notices in a timely manner, and failure to provide compensation benefits in a timely manner. These allegations indicate the possible existence of claim handling procedures that could be assessable as a civil penalty under Labor Code 129.5(d).

The investigation and audit consisted of a limited review of a random sample of indemnity claims plus review of procedures involving the taking of new reports and data entry programs and review of the computer record data base.

There was no indication of a general business practice for which a civil penalty may be assessed under Labor Code Section 129.5(d), and the Audit Unit did not recommend that a

civil penalty be assessed. Administrative penalties were assessed only for 59 individual violations totaling \$8,080.

4. Gates, McDonald & Company in Concord, CA.

This civil penalty investigation and audit of 2001 was conducted based on information received from the Office of Self-Insurance Plans indicating possible business practices involving late paid indemnity, failure to pay self-imposed increases pursuant to Labor Code Section 4650(d), and failure to issue required benefit notices pursuant to Title 8, California Code of Regulations, Sections 9812 and 9813. The investigation and audit consisted of a limited review of a targeted sample of claims of specific clients.

Penalties were assessed only for individual violations involving the failure to pay indemnity, late paid indemnity and the failure to pay self-imposed increases, and the failure to issue notices. The audit subject filed an appeal of the audit findings. The appeal was resolved in late 2002.

The Audit Unit has filed charges to a civil penalty and has requested the Administrative Director set a hearing for Gates McDonald to show cause why the Administrative Director should not assess a civil penalty. The matter is now pending a hearing date.

Unpaid Compensation Due To Employees

Of the 4,170 indemnity, complaint, and additional files audited (that is, all the audited files except for the audited denials and medical-only claims), the Audit Unit found 579 files (13.9% - down from 17.2% in 2001) in which the employee was due compensation, interest and/or penalties totaling \$850,385.36. The average amount of unpaid compensation per file in which there was unpaid compensation was \$1,468.71 – up from \$1,064.39 in 2001. The administrator is required to pay these employees within 15 days after receipt of a notice advising the administrator of the amount due, unless a written request for a conference is filed within 7 days of receipt of the audit report.

When employees due unpaid compensation cannot be located, the unpaid compensation is payable by the administrator to the *Workplace Health and Safety Revolving Fund*. In these instances, application by an employee can be made to the Division of Workers' Compensation for payment of moneys deposited by administrators into this fund. In 2002, \$2,750.95 was paid into this fund because the injured workers could not be located.

Informal Post-Audit Conferences

Informal post-audit conferences are offered to all administrators after audits are completed. Conferences help to clarify issues, resolve misunderstandings and assist in reducing the frequency and volume of conference appeals. The post-audit conference is the last opportunity for the administrator to respond to audit findings on an informal basis before issuance of the written audit report, *Notices of Penalty Assessments* and *Notices of Compensation Due*.

The conference may include:

- A discussion of the factual and legal bases for the proposed penalty assessments and/or notices of unpaid compensation. The claims administrator is given the opportunity to dispute proposed penalties informally and provide reasons for additional mitigation for the penalties proposed.
- A discussion of general findings of areas where there are deficiencies. The Audit report includes frequency tables so that frequency of violations can be addressed. These tables (**Individual Exhibit 5** for each audit) in effect act as report cards, showing in key areas of consideration the number of files in which exposure for certain penalty assessments exists, the number of files in which penalties are proposed, and the resultant percentage of those files in which penalties are proposed.
- A discussion of claims where the claims administrator will be requested to take action and/or provide further information or documentation so that penalties may be properly assessed. Issuance of the final report following the post-audit conference may be postponed until the audit subject has had the chance to obtain additional documentation to clarify any disputed issues.
- A discussion of additional documentation to be obtained to comply with statutory and/or regulatory requirements. Necessary items for documentation of compliance are listed in addenda to the audit reports. These suspense items include requests for such documentation as earnings for the dates of the injury, wage statements needed to determine appropriate disability rates, and proof of provision of claim forms.

Final Audit Report

Following the post-audit conference, the Audit Unit issues the final report of audit findings along with the Notice of Penalty Assessments and Notices of Compensation Due. If any penalties are still in dispute, the audit subject then has 7 days from receipt of the final audit report to request an appeal, either by appeal conference or written decision only from the Administrative Director, and an additional 21 days from the date of request for appeal to submit arguments and supporting documentation. Any unappealed penalties must be paid within 15 days of receipt of the Notice of Penalty Assessments.

Appeals

In 2002, one audit was appealed and remains unresolved. However, the two unresolved appeals from an earlier year, 2001 audits, were resolved. The status of each of these appeals is as follows:

- 99 Cents Only Stores – City of Commerce, Audit No. AHM-16-02-R-2: The audit subject appealed all 1,865 penalties totaling \$289,015. The appeal is pending.
- Gates, McDonald & Company – Concord, Audit No. SAC-02-01-CI/NR-5: Of the 285 penalties totaling \$64,460 assessed, the audit subject appealed 11 penalties for \$5,950. The Audit Unit considered additional information submitted by the audit subject following its appeal of this 2001 audit and reduced the penalties to \$61,010 for 276 violations. The appeal was resolved without a hearing.
- Alameda County Schools Insurance Group – Dublin, Audit No. OAK-08-01-R-6: Of the 146 penalties totaling \$21,840 assessed, the audit subject appealed 13 penalties totaling \$9,090. The Audit Unit after considering additional information submitted by the audit subject following its appeal of this 2001 audit held its position on the appealed items. The appeal was resolved without a hearing and the audit subject withdrew the appeal and paid \$21,840 plus an additional \$500 for two additional penalties for its failure too timely pay two Notices of Compensation Due.

Types of Penalties Cited

The following are the eight most common types of violations and the number of times they have been cited in 2002 audits:

1. Failure to Timely Provide Proper and Accurate Benefit Notice

In 2002, the Audit Unit assessed 4,096 penalty citations totaling \$468,140 (32.4% of the total of 12,654 penalties assessed and 23.3% of the total dollar amount of \$2,004,890) which involved the provision of benefit notices, excluding the vocational rehabilitation notices listed in No. 5 below. The dollar amount of these assessments ranged from \$25 to \$100 each, except for notices of the procedure to evaluate permanent disability and denial notices for injuries occurring on or after 1/1/94, for which the penalties are assessed at up to \$500. These violations are broken down as follows:

- **Failure to Issue Benefit Notices**

1,672 penalty citations totaling \$160,560 (13.2% of the total penalties and 8.0% of the total dollar amount) were issued for the failure to issue benefit notices. The penalty assessments ranged from \$50 to \$100 before mitigation for good faith, frequency, and history.

- **Late Provision of Benefit Notices**

1,213 penalty citations totaling \$70,885 (9.6% of the total penalties and 3.5% of the total dollar amount) were issued for late provision of benefit notices. The penalty assessments ranged from \$50 to \$100 before mitigation for good faith, frequency, and history.

- **Materially Inaccurate or Incomplete Benefit Notices**

684 penalty citations totaling \$24,425 (5.4% of the total penalties and 1.2% of the total dollar amount) were issued for materially inaccurate or incomplete benefit notices. The penalties were assessed at \$25 before mitigation for good faith, frequency, and history.

- **Failure to Timely Issue Notices for the Procedure to Evaluate Permanent Disability**

502 penalty citations totaling \$205,770 (4.0% of the total penalties and 10.3% of the total dollar amount) were issued for late issuance and the failure to issue notices advising of the procedure to evaluate permanent disability. The penalties ranged from \$100 to \$500 before mitigation for good faith, frequency, and history.

- **Violations Involving Denial Notices**

25 penalty citations totaling \$6,500 (0.2% of the total penalties and 0.3% of the total dollar amount) were issued for late issuance, the failure to issue, and the issuance of materially misleading or inaccurate denial notices. The penalties ranged from \$100 to \$500 before mitigation for good faith, frequency, and history.

2. Failure to Pay or Object to Medical or Medical-Legal Bills within 60 Days of Receipt

3,397 penalty citations totaling \$248,960 (26.9% of the total penalties and 12.4% of the total dollar amount) were issued involving the failure to pay or object to medical or medical-legal bills within 60 days from the receipt of the bill and failure to pay interest and self-imposed increases for late paid bills. Penalty assessments ranged from \$25 to \$100 each before mitigation for good faith, frequency, and history. The penalties are broken down as follows:

- **Failure to Pay or Object to Medical Expenses within 60 Days of Receipt**

3,110 penalty citations totaling \$227,045 (24.6% of the total penalties and 11.3% of the total dollar amount) were issued for the failure to pay or object to medical expenses within 60 days from the receipt of the bill and/or failure to pay interest and self-imposed increases for late paid bills. Penalty assessments ranged from \$25 to \$100 each depending on the amounts of the bills, before mitigation for good faith, frequency, and history, and from \$25 to \$50 for the failure to pay interest or penalties on late paid medical bills.

- **Failure to Pay or Object to Medical-Legal Bills within 60 Days of Receipt**

287 penalty citations totaling \$21,915 (2.3% of the total penalties and 1.1% of the total dollar amount) were issued for the failure to pay or object to medical-legal bills within 60 days from the receipt of the bill. Penalty assessments ranged from \$50 to \$100 each before mitigation for good faith, frequency, and history, depending on whether the bill remained unpaid at the time of the audit and whether or not interest and penalty were paid.

3. Late Indemnity Payments

1,989 penalty citations totaling \$289,075 (15.7% of the total penalties and 14.4% of the total dollar amount) were assessed for late indemnity payments. The penalties were assessed at up to \$100 before mitigation for good faith, frequency, and history unless the payments were more than 30 days late, in which case the penalties were assessed at up to \$1,000 depending on the amount of late paid indemnity. These violations are broken down as follows:

- **Late Subsequent Indemnity Payments**

1,053 penalty citations totaling \$131,505 (8.3% of the total penalties and 6.5% of the total dollar amount) were assessed for late subsequent indemnity payments, including any late death benefit payments, the failure to pay all indemnity due with a payment when paid with a later payment, late payments of self-imposed increases for any late indemnity payments, and late payments of WCAB Awards or Orders. The penalties ranged from \$25 to \$100 before mitigation for good faith, frequency, and history, depending on the degree of lateness, unless the payments were more than 30 days late, in which case the penalties were assessed at up to \$1,000 depending on the amount of late paid indemnity.

- **Late First Payments of Temporary Disability Indemnity**

712 penalty citations totaling \$99,325 (5.6% of the total penalties and 5.0% of the total dollar amount) were assessed for late first payments of temporary disability indemnity. The penalties ranged from \$25 to \$100 before mitigation for good faith, frequency, and history, depending on the degree of lateness, unless the payments were more than 30 days late, in which case the penalties were assessed at up to \$1,000 depending on the amount of late paid indemnity.

- **Late First Payments of Permanent Disability Indemnity**

195 penalty citations totaling \$52,275 (1.5% of the total penalties and 2.6% of the total dollar amount) were assessed for late first payments of permanent disability indemnity. The penalties ranged from \$25 to \$100 before mitigation for good faith, frequency, and history depending on the degree of lateness, unless the payments were more than 30 days late, in which case the penalties were assessed at up to \$1,000 depending on the amount of late paid indemnity.

- **Late First Payments of Vocational Rehabilitation Maintenance Allowance**

26 penalty citations totaling \$5,750 (0.2% of the total penalties and 0.3% of the total dollar amount) were assessed for late first payments of vocational rehabilitation maintenance allowance. The penalties range from \$25 to \$100 before mitigation for good faith, frequency, and history depending on the degree of lateness, unless the payments were more than 30 days late, in which case penalties are assessed at up to \$1,000 depending on the amount of late paid indemnity.

- **Late Death Benefit Payments**

Three penalty citations totaling \$220 (0.1% of the total penalties and 0.01% total dollar amount) were assessed for late death benefit payments. Penalties in this category can range from \$25 to \$100 before mitigation for good faith, frequency, and history, depending on the degree of lateness, unless the payments were more than 30 days late, in which case penalties are assessed at up to \$1,000 depending on the amount of late paid benefits.

4. Failure to Timely Comply with Vocational Rehabilitation Notice Requirements

977 penalty citations totaling \$396,180 (7.7% of the total penalties and 19.8% of the total dollar amount) were issued for the failure to timely comply with specified vocational rehabilitation notice requirements. Penalty assessments ranged from \$100 to \$500 each before mitigation for good faith, frequency, and history. The penalties are broken down as follows:

- **Failure to Timely Comply with Vocational Rehabilitation Requirements following 90 Days of Aggregate Temporary Disability**

533 penalty citations totaling \$220,560 (4.2% of the total penalties and 11.0% of the total dollar amount) were issued for the failure to timely assign a Qualified Rehabilitation Representative within 10 Days after 90 days of aggregate total disability for injuries occurring before 1/1/94, and for failure to issue a notice regarding vocational rehabilitation rights within 10 days after 90 days of aggregate total disability for injuries occurring on or after 1/1/94. Penalty assessments ranged from \$100 to \$500 each before mitigation for good faith, frequency, and history.

- **Failure to Timely Issue a Notice of Potential Eligibility for Vocational Rehabilitation**

379 penalty citations totaling \$148,000 (3.0% of the total penalties and 7.4% of the total dollar amount) were issued for the failure to timely issue a *Notice of Potential Eligibility* for Vocational Rehabilitation within 10 days of knowledge of a physician's opinion of an employee's medical eligibility. Penalty assessments ranged from \$100 to \$500 each before mitigation for good faith, frequency, and history.

- **Failure to Timely Issue a Notice Denying Vocational Rehabilitation as Required**

65 penalty citations totaling \$27,620 (0.5% of the total penalties and 1.4% of the total dollar amount) were issued for the failure to timely issue a denial notice for vocational rehabilitation services along with notice of the procedures for disputing the denial when required, or for termination of vocational rehabilitation services other than as described by Labor Code §4644.

5. Failure to Pay Accrued and Payable Indemnity in Undisputed Claims

950 penalty citations totaling \$276,010 (7.5% of the total penalties and 13.8% of the total dollar amount) were assessed for violations involving the failure to pay accrued and payable indemnity in undisputed claims. The penalty assessments ranged from \$25 to \$1,000 before mitigation for good faith, frequency, and history, depending on the unpaid amount, unless the failure to pay involved the complete failure to pay a WCAB Award or Order, in which case penalties are assessed at \$5,000. These violations are broken down as follows:

- **Failure to Pay Self-Imposed Increases for Late Paid Indemnity**

451 penalty citations totaling \$36,590 (3.6% of the total penalties and 1.8% of the total dollar amount) were issued for the failure to pay self-imposed increases payable because of the late payment of temporary or permanent disability indemnity. The penalty assessments ranged from \$25 to \$100 before mitigation for good faith, frequency, and history, depending on the amount of the late paid indemnity for which the self-imposed increases were due.

- **Failure to Pay Temporary Disability Indemnity or Salary Continuation in Lieu of Temporary Disability Indemnity**

307 penalty citations totaling \$120,320 (2.4% of the total penalties and 6.0% of the total dollar amount) were issued for the failure to pay temporary disability indemnity or salary

continuation in lieu of temporary disability indemnity, which was not awarded or ordered, paid by the WCAB. The penalty assessments ranged from \$100 to \$1,000 before mitigation for good faith, frequency, and history, depending on the unpaid amount.

- **Failure to Pay Permanent Disability Indemnity**

108 penalty citations totaling \$61,980 (0.9% of the total penalties and 3.1% of the total dollar amount) were issued for the failure to pay permanent disability indemnity that was not awarded or ordered paid by the WCAB. The penalty assessments ranged from \$200 to \$1,000 before mitigation for good faith, frequency, and history, depending on the unpaid amount.

- **Failure to Pay All or Part of a WCAB Award or Order or Rehabilitation Unit Order**

33 penalty citations totaling \$27,800 (0.3% of the total penalties and 1.4% of the total dollar amount) were issued for the failure to pay all or part of any indemnity awarded by the WCAB or Rehabilitation Unit. The penalty assessments ranged from \$100 to \$5,000 before mitigation for good faith, frequency, and history, depending on the unpaid amount.

- **Failure to Pay Vocational Rehabilitation Maintenance Allowance**

26 penalty citations totaling \$14,680 (0.2% of the total penalties and 0.7% of the total dollar amount) were issued for the failure to pay vocational rehabilitation maintenance allowance which was not awarded or ordered paid by the WCAB or Rehabilitation Unit. The penalty assessments ranged from \$100 to \$1,000 before mitigation for good faith, frequency, and history, depending on the unpaid amount.

- **Failure to Pay Interest or Penalty on an Award or Failure to Pay Death Benefits**

25 penalty citations totaling \$14,640 (0.2% of the total penalties and 0.8% of the total dollar amount) were issued for the failure to pay any Interest or Penalty on an Award. The penalty assessments ranged from \$100 to \$1,000 before mitigation for good faith, frequency, and history, depending on the unpaid amount.

6. Late Payment of WCAB Awards or Orders or Orders of the Rehabilitation Unit

69 penalty citations totaling \$114,930 (0.5% of the total penalties and 5.7% of the total dollar amount) were issued for late payments of WCAB Orders or Awards or Orders of the Rehabilitation Unit. The penalty assessments ranged up to \$5,000 before mitigation for good faith, frequency, and history, depending on how late the payment.

7. Unsupported Denial of Liability for Claims and Failure to Investigate

66 penalty citations totaling \$87,420 (0.5% of the total penalties and 4.4% of the total dollar amount) were issued for unsupported denials of liability for claims and the failure to investigate to determine whether benefits were payable. Penalty assessments ranged up to \$1,000 before mitigation for good faith, frequency, and history for the failure to investigate, and up to \$5,000 before mitigation for good faith, frequency, and history for unsupported denials. The penalties are broken down as follows:

- **Failure to Investigate**

46 penalty citations totaling \$24,420 (0.4% of the total penalties and 1.2% of the total dollar amount) were issued for the failure to investigate to determine whether benefits were payable in a claim. If the failure to investigate led to the denial of all liability for the claim, the penalty was assessed for the unsupported denial rather than the failure to investigate. Penalty assessments ranged up to \$1,000 before mitigation for good faith, frequency, and history.

- **Unsupported Denial of Liability for Claims**

20 penalty citations totaling \$63,000 (0.1% of the total penalties and 3.1% of the total dollar amount) were issued for unsupported denials of liability for claims. Penalty assessments ranged up to \$5,000 before mitigation for good faith, frequency, and history.

8. Other Violations

1,110 penalty citations totaling \$124,175 (8.8% of the total penalties and 6.2% of the total dollar amount) were issued for other violations, including the failure to document an employee's average weekly earnings when temporary disability is paid at less than the maximum rate, the failure to document that a claim form was provided to an injured worker, the failure to maintain various forms of documentation in a claim file such as copies of medical reports or WCAB orders or awards, the failure to pay or object to a vocational rehabilitation expense within 60 days of receipt of the bill, the filing of an inaccurate Annual Report of Inventory, and claim log violations. Penalty assessments generally range up to \$100 before mitigation for good faith, frequency, and history. Claim log violations and violations involving the filing of an inaccurate Annual Report of Inventory (assessed as part of an audit) range up to \$500.

Penalties for the Failure to File the Annual Report of Inventory

In addition to the 12,654 administrative penalty assessments totaling \$2,004,890 that were assessed as a result of audits, an additional 37 penalties totaling \$18,520 were assessed not as the result of individual audits, but for the failure of claims administrators to timely file an Annual Report of Inventory of Claims with the Audit Unit, as required by Title 8, California Code of

Regulations, Section 10104. These penalties are not otherwise included as part of the audit data within this report, but were assessed as follows:

Claims Administrator	Location	Amount Assessed	Amount Collected	Unpaid Balance
Assoc. of California Water Agency	Citrus Heights, CA	\$1500	\$1500	\$0
City of Richmond	Richmond, CA	\$3000	\$3000	\$0
Claimquest, Inc.	Walnut, CA	\$280	\$280	\$0
Complere Claim Services	Aliso Viejo, CA	\$500	\$0	\$500
Crawford & Company	Orange, CA	\$280	\$0	\$280
Farmers Insurance Group	Van Nuys, CA	\$400	\$400	\$0
Ford Motor Company	Richmond, CA	\$400	\$400	\$0
Foster Farms	Turlock, CA	\$500	\$500	\$0
Fullerton School District	Fullerton, CA	\$100	\$100	\$0
Highlands Insurance Group	Tustin, CA	\$400	\$400	\$0
Indiana Lumbermens Mutual Insurance	Indianapolis, IN	\$400	\$400	\$0
InServices, Inc.	Rancho Cordova, CA	\$400	\$400	\$0
Integrated Claims Admin.	Torrance, CA	\$500	\$0	\$500
Interstate Brands	San Diego, CA	\$280	\$280	\$0
Lance Camper Mfg. Corp.	Lancaster, CA	\$400	\$400	\$0
Mitsui Sumitomo Insurance	Universal City, CA	\$400	\$400	\$0
North Bay Schools Insurance Group	Suisun, CA	\$280	\$280	\$0
Ohio Casualty Group	Hamilton, OH	\$500	\$500	\$0
PTSC/MTA Risk Mgmt. Authority	Los Angeles, CA	\$280	\$280	\$0
Ralphs Grocery Company	Los Angeles, CA	\$400	\$400	\$0
Recon Administrative Service	Banning, CA	\$1000	\$0	\$1000
Rexhall Industries, Inc.	Lancaster, CA	\$1000	\$1000	\$0
Risk Management Service Group	Agoura Hills, CA	\$500	\$500	\$0
Safeco Insurance Company	Santa Ana, CA	\$400	\$0	\$400
Safeway, Inc.	Walnut Creek, CA	\$400	\$400	\$0
San Diego Transit Corp.	San Diego, CA	\$500	\$0	\$500
Sedgwick Claims Mgmt. Services	Orange, CA	\$100	\$100	\$0
The Hartford Insurance Group	Sacramento, CA	\$180	\$180	\$0

The Hartford Insurance Group	Dallas, TX	\$180	\$180	\$0
The Stockman Group	Whittier, CA	\$400	\$400	\$0
Topa Insurance Company	Los Angeles, CA	\$280	\$280	\$0
Tristar Risk Management	Santa Ana, CA	\$400	\$400	\$0
Universal Underwriters Insurance	Roseville, CA	\$400	\$400	\$0
Universal Underwriters Insurance	Overland Park, KS	\$500	\$500	\$0
Vanliner Insurance Company	St. Louis, MO	\$400	\$400	\$0
Warner Brothers Studio Facility	Burbank, CA	\$400	\$400	\$0
Yasuda Fire & Marine	Los Angeles, CA	\$280	\$280	\$0
TOTALS		\$18,520.00	\$15,340.00	\$3,180.00

EXHIBITS

Exhibit 1A is a summary of the number of files audited by type, the numbers and amounts of penalties, amounts collected, balance due, and the number of appeals for Northern California and Southern California. **Exhibit 1B** lists the same data for each audit subject audited in or by Northern California staff. **Exhibit 1C** lists the same data for each audit subject audited in or by Southern California staff. **Exhibit 1D** lists the audit subjects whose performance did not merit return, non-random audits based on 2002 audit results. **Exhibit 1E** lists those audit subjects whose poor performance warrant return non-random audits within the next one to three years. **Exhibit 2A and 2B** are summaries of the audit results for each audit by type of claims administrator and by method of selection for audit. There are separate listings for randomly selected and non-randomly selected audit subjects, and breakdowns showing the same data for insurers, self-insured employers, and third-party administrators as separate groupings.

Exhibit 3 separates the Schedule of Administrative Penalties in Title 8, California Code of Regulations, Sections 10111 and 10111.1 into various categories. There is a **Key to Exhibit 3** describing the nature of each category and listing the ranges of penalty assessment amounts, and an **Exhibit 3** showing statewide totals and amounts of penalties assessed in 2002 by category.

Exhibit 4 summarizes by type of indemnity the amounts of unpaid compensation found in the 579 audited claims for which Notices of Compensation Due were issued.

Perhaps the clearest way to measure the overall performance of California workers' compensation claims administrators is by the percentages of audited claim files with violations when compared to the claim files with the exposure for violations in key areas. **Exhibits 5A through 5L** show, in each of 21 key areas of consideration, the number of files in which the

exposure for assessment exists, the number of files in which penalties were assessed, and the percentage of those files with exposure in which penalties were assessed. These 21 categories are as measured by the frequency mitigation standards in Title 8, California Code of Regulations, Sections 10111.1(d)(1) and (e)(3). The exhibits list the numbers and percentages for randomly selected files only, excluding penalties and exposure for penalties from any files audited as a result of complaints received by the Audit Unit or any files selected by any other method than randomly. They are broken down as follows:

• Exhibit 5A	Statewide Frequency Summary for all audit subjects.
• Exhibit 5B	Statewide Frequency Summary for all randomly selected audit subjects.
• Exhibit 5C	Statewide Frequency Summary for all non-randomly selected audit subjects.
• Exhibit 5D	Statewide Frequency Summary for all insurers, regardless of method of selection.
• Exhibit 5E	Statewide Frequency Summary for all randomly selected insurers.
• Exhibit 5F	Statewide Frequency Summary for all non-randomly selected insurers.
• Exhibit 5G	Statewide Frequency Summary for all self-insured employers, regardless of method of selection.
• Exhibit 5H	Statewide Frequency Summary for all randomly selected self-insured employers.
• Exhibit 5I	Statewide Frequency Summary for all non-randomly selected self-insured employers.
• Exhibit 5J	Statewide Frequency Summary for all third-party administrators, regardless of method of selection.
• Exhibit 5K	Statewide Frequency Summary for all randomly selected third-party administrators.
• Exhibit 5L	Statewide Frequency Summary for all non-randomly selected third-party administrators.

Following the statewide **Exhibits 1A** through **5L** in the report are **Individual Exhibits 3, 4, and 5** for each audit subject.

Trends in Claims Performance

In 2002, the Audit Unit conducted 55 audits and audited 8,861 claims, a slight increase from the 49 audits with 8,749 claims audited in 2001. There was a notable increase in administrative penalties assessed for specific violations in 2002:

- In 2002, the Audit Unit assessed 12,654 penalties totaling \$2,004,890.
- In 2001, the Audit Unit assessed 11,380 penalties totaling \$1,793,065.

Analysis of audit results of the two years seems to indicate that claims performance in certain key areas declined in 2002, at least as insofar as overall performance can be measured by audits conducted:

- Even though more claims were audited in 2002 than in 2001, the numbers of penalties assessed for failure to pay accrued and payable indemnity in undisputed claims decreased from 1,205 in 2001 to 950 in 2002 (a 21.2% decrease).
- The numbers of penalties assessed for late payments of indemnity decreased from 2,233 in 2001 to 1,989 in 2002 (a 10.9% decrease).
- The numbers of penalties assessed for failure to issue routine benefit notices decreased from 2,176 in 2001 to 1,672 in 2002 (a 23.2% decrease).

The frequency rates of claims with penalties in these areas, in randomly selected claims, determine whether or not an audit subject “fails” an audit under current regulations. If an audit subject fails an audit, the Audit Unit returns for a repeat non-random audit within three years. In 2001, 36% of the audit subjects merited return, target audits based on poor audit performance in randomly selected claims. In 2002, 21% of the audit subjects merited return, target audits.

Following are some audit data from the past six years:

Numbers of Audits Conducted

- 1997: 39 Audits
- 1998: 34 Audits
- 1999: 30 Audits
- 2000: 54 Audits
- 2001: 49 Audits
- 2002: 55 Audits

Numbers of Claims Audited

- 1997: 8,504 Claims
- 1998: 6,493 Claims
- 1999: 5,743 Claims
- 2000: 8,921 Claims
- 2001: 8,749 Claims
- 2002: 8,861 Claims

Numbers of Penalties Assessed

- 1997: 9,324 Penalties
- 1998: 7,774 Penalties
- 1999: 10,232 Penalties
- 2000: 10,354 Penalties
- 2001: 11,380 Penalties
- 2002: 12,654 Penalties

Dollar Amounts of Penalties Assessed

- 1997: \$1,269,370
- 1998: \$1,069,285
- 1999: \$1,532,540
- 2000: \$1,524,470
- 2001: \$1,793,065
- 2002: \$2,004,890

Unpaid Indemnity

- 1997: \$455,401.53 in 508 Claims
- 1998: \$356,787.00 in 423 Claims
- 1999: \$499,291.43 in 495 Claims
- 2000: \$454,868.94 in 559 Claims
- 2001: \$778,072.68 in 731 Claims
- 2002: \$850,385.36 in 579 Claims

Average Unpaid Indemnity in Claim with Unpaid Indemnity

- 1997: \$896.46
- 1998: \$843.47
- 1999: \$1,008.67
- 2000: \$813.72
- 2001: \$1,064.39
- 2002: \$1,468.71

Frequency of Violations

A comparison of the statewide frequency for all audit subjects (Exhibit 5A) with the statewide frequency in the five prior years' annual reports shows:

Unpaid Indemnity

Of the randomly selected audited claims in which indemnity was accrued and payable, the percentage with assessments for unpaid indemnity was:

- 1997: 19.39% (473 of 2,439 claims)
- 1998: 19.49% (384 of 1,970 claims)
- 1999: 23.50% (431 of 1,834 claims)
- 2000: 18.26% (503 of 2,755 claims)
- 2001: 20.32% (606 of 2,983 claims)
- 2002: 16.92% (503 of 2,972 claims)

Late First Payments of Temporary Disability

Of the randomly selected audited claims with temporary disability payments, the following percentages of those claims were assessed penalties for late first payments:

- 1997: 20.71%
- 1998: 28.83%
- 1999: 30.27%
- 2000: 23.88%
- 2001: 29.47%
- 2002: 28.55%

Late First Payments of Permanent Disability

Of the randomly selected audited claims with permanent disability payments, the following percentages of those claims were assessed penalties for late first payments:

- 1997: 30.79%
- 1998: 25.62%
- 1999: 26.98%
- 2000: 22.13%
- 2001: 25.53%
- 2002: 17.30%

Failure to Issue Routine Benefit Notices

Of the randomly selected claims with a requirement to issue routine benefit notices (e.g., first payment, final payment, delay in decision, change of disability rate), the following percentages were assessed penalties for at least one failure to issue a notice:

- 1997: 24.02%
- 1998: 21.89%
- 1999: 30.60%
- 2000: 23.70%
- 2001: 30.31%
- 2002: 26.48%

Failure to Timely Issue Notices advising of the Procedure to obtain Permanent Disability Evaluations (QME Notices)

Of the randomly selected claims with a requirement to issue a notice advising the injured worker of the procedure to obtain an examination by a Qualified Medical Examiner to evaluate permanent disability, the following percentages of those claims were assessed penalties for failure to comply with requirements (both late notices and failure to issue notices):

- 1997: 19.11%
- 1998: 17.72%
- 1999: 24.59%
- 2000: 20.62%
- 2001: 20.55%
- 2002: 20.97%

90-Day Vocational Rehabilitation Notices

Of the randomly selected claims where there was an obligation to issue a notice of vocational rehabilitation rights after 90 days of temporary disability, the following percentages of those claims were assessed penalties for failure to comply with requirements (both late notices and failure to issue notices):

- 1997: 43.57%
- 1998: 41.45%
- 1999: 55.30%
- 2000: 46.98%
- 2001: 53.75%
- 2002: 53.75%

Notice of Medical Eligibility for Vocational Rehabilitation

Of the randomly selected claims where there was an obligation to issue a Notice of Potential Eligibility for vocational rehabilitation within 10 days of knowledge of a physician's opinion that the employee was medically eligible, the following percentages of those claims were assessed penalties for failure to comply with requirements (both late notices and failure to issue notices):

- 1997: 48.03%
- 1998: 50.16%
- 1999: 48.00%
- 2000: 46.92%
- 2001: 57.70%
- 2002: 52.88%

Failure to Timely Pay or Object to Bills for Medical Treatment

Of the randomly selected claims with a requirement to pay or object to bills for medical treatment within required time frames, the following percentages of claims were assessed penalties for at least one failure to timely pay or object:

- 1997: 11.89%
- 1998: 14.77%
- 1999: 18.63%
- 2000: 13.03%
- 2001: 13.00%
- 2002: 14.74%

Failure to Pay or Object to Medical-Legal Bills within 60 Days

Of the randomly selected claims with a requirement to pay or object to medical-legal bills within 60 days, the following percentages of claims were assessed penalties for at least one failure to pay or object within the 60 days:

- 1997: 6.74%
- 1998: 8.33%
- 1999: 12.67%
- 2000: 6.87%
- 2001: 8.56%
- 2002: 6.35%

Amendments to audit regulations in November 1998 included changes to penalty frequency mitigation criteria to provide an incentive to improve claims handling performance in the prompt issuance of routine benefit notices. Penalties are eliminated for violations involving the failure to issue routine benefit notices and/or late benefit notices if frequency of violations is 10% or less in randomly selected claims. In 12 of the 52 audits in 2002 (23.1%), penalties for late benefit notices and/or failure to issue benefit notices were reduced to zero because the percentages of claims with violations were 10% or less.

A comparison of the frequency summaries for randomly selected audit subjects (Exhibit 5B) and for non-randomly selected audit subjects (Exhibit 5C) shows that frequency of assessments is generally higher for the targeted audit subjects than for the randomly selected audit subjects. Even so, and even though some audit subjects demonstrate good performance, the overall frequency of violations is high for both randomly selected and targeted audit subjects as separate groups.

California Division of Workers' Compensation Audit Program Description

Work progressed through 2002, extensive new audit regulations, effective 2003 are in place to implement Assembly Bill 749. Profile audit review audits (PAR audits) commenced, February 18, 2003. Employees of the Division have high expectations that the audit program's effectiveness will be enhanced by the changes. The Audit Unit continues to work to ensure that injured workers receive their proper workers' compensation benefits and to act as a deterrent to poor claims handling.

2003 Audit Program Description

Assembly Bill 749, enacted into law in 2002 and effective in 2003, mandates major changes to the Division of Workers' Compensation audit program. These changes include the following:

- The Audit Unit will be required to conduct a profile audit review (PAR audit) of each adjusting location of California workers' compensation claims at least once every five years.
- The Administrative Director will annually publish a profile audit review performance standard and a full compliance audit performance standard.
- Audit subjects that meet or exceed profile audit review performance standards will be required to pay all compensation found unpaid by the Audit Unit, but no penalties will be assessed.
- Audit subjects that do not meet or exceed profile audit review performance standards will be subject to a full compliance audit.
- Audit subjects that meet or exceed full compliance audit performance standards will be required to pay all compensation found unpaid by the Audit Unit, and will be assessed penalties for unpaid and late paid compensation only.
- Audit subjects that do not meet or exceed full compliance audit performance standards will be required to pay any compensation found unpaid by the Audit Unit, and will be assessed penalties for all violations included in a full compliance audit failure penalty schedule.
- A new factor in determining penalty amounts (for audit subjects that fail to meet or exceed the full compliance audit performance standard) will be the size of the adjusting location. Penalties assessed pursuant to the full compliance audit failure penalty schedule may be as high as \$40,000 each for the most serious violations at the largest adjusting locations. The previous maximum penalty amount was \$5,000.
- The Administrative Director shall publish and make available to the public on request a list ranking all insurers, self-insured employers, and third-party administrators audited according to their performance ratings.

Selection of PAR Audit Subjects

Targeted Audit Subject Selection [8CCR§10106.1(c)]

- Complaints regarding claims handling received by the Division of Workers' Compensation.
- Failure to meet or exceed Full Compliance Audit Performance Standards.
- High Numbers of Penalties awarded pursuant to Labor Code Section 5814.
- Information received from the Workers' Compensation Information System.

Notices of Audit and Audit Commencement

- Notice of Audit informs the administrator that it has been selected for audit and requests claim logs be sent to the Audit Unit.
- Notice of Audit Commencement is issued two to three weeks before the audit is to begin, identifies the claims that are selected for audit and includes instructions for preparing the claims for audit.

Selection of Claims for Audit and Performance Standards

- **Profile Audit Review [8CCR§10107.1(c)]**

Random sample of indemnity files from logs of prior 3 years

Complaints involving unpaid indemnity

PAR Performance rating for the following factors:

- Unpaid indemnity
- Late first TD payment / late first notice of SC
- Late first payment of PD, VRMA, DB
- Late subsequent indemnity payment(s)
- Failure to comply with requirements for issuance of notices for selection of AME/QME and for potential eligibility for VR

For audits conducted in 2003, a PAR performance rating of higher than 2.09 will result in a full compliance audit of indemnity files.

- PAR / Pass – the Audit Unit will issue Notice(s) of Compensation Due pursuant to 8CCR§10110 but will assess no administrative penalties for violations found in the PAR
- PAR / Fail – the Audit Unit will conduct a Full Compliance Audit in accordance with 8CCR§10107.1(d)

- **Full Compliance Audit [8CCR§10107.1(d)]**

Expanded random sample of indemnity files from logs of prior 3 years

Complaints involving unpaid and late paid indemnity

Full Compliance Audit (FCA) Performance rating of randomly selected files for the following factors:

- Unpaid indemnity
- Late first TD payment / late first notice of SC
- Late first payment of PD, VRMA, DB
- Late subsequent indemnity payment(s)
- Failure to comply with requirements for issuance of notices for selection of AME/QME and for potential eligibility for VR

For audits conducted in 2003, a FCA performance rating of higher than 2.81 will result in a full compliance audit of indemnity files.

- FCA Indemnity / Pass – the Audit Unit will issue Notice(s) of Compensation Due pursuant to 8CCR§10110 and will assess administrative penalties for violations for failure to pay and late paid indemnity
- FCA Indemnity / Fail – the Audit Unit will conduct a Full Compliance Audit in accordance with 8CCR§10107.1(e)

- **Full Compliance Audit [8CCR§10107.1(e)]**

Random sample of denied claims in addition to the expanded random sample of indemnity files from logs of prior 3 years

Complaints that indicate the possible existence of any claims handling violations

Claims will be audited for all violations

FCA findings will include Notice(s) of Compensation Due pursuant to 8CCR§10110, and Notice of Penalty Assessments of administrative penalties for all violations cited

The Audit Unit will return for a target audit within 2 years

Basic Audit Practices and Procedures

- Time and staff at the audit site
- Lead auditor
 - Coordinates activity with the audit subject
 - Provides findings for each file as audit progresses
 - Maintains documentation for any cited violations
 - Prepares Preliminary and Final Reports of Audit Findings
- Preliminary Report and Post-Audit Conference
- Final Audit Report; Payment of Penalties and Compensation Due; Submission of documentation of Compliance
- Appeal of Penalties and/or Compensation Due

How to Help the Audit Run Smoothly

- Communicate with the Audit staff by acknowledging any cited violations and/or respond to any questions for clarification of claims handling issues
- Ask any questions *during the audit* so that audit may proceed in a timely manner
- If you have any complaints or concerns about how the audit is conducted, contact the Audit Supervisor or Audit Unit Manager.

Exhibit 1A**Calendar Year 2002****Penalty Assessments and Collections****Statewide Summary**

	# of Audits	Number of Files Audited					# of Times Cited	Total \$ Penalties Assessed	Reductions as a Result of Appeal	Total \$ Amount Collected	Balance \$ Due	Appealed
		Indem- nity	Medical Only	Denied	Com- plaints	Add- tional						
No. California	25	1,636	1,320	995	117	76	3,551	\$566,315	\$0	\$509,875	\$56,440	0
So. California	30	2,002	1,379	997	246	93	9,103	\$1,438,575	\$0	\$1,149,560	\$289,015	1
TOTAL	55	3,638	2,699	1,992	363	169	12,654	\$2,004,890	\$0	\$1,659,435	\$345,455	1

Exhibit 1B

Page 1 of 2

Calendar Year 2002
Penalty Assessments and Collections
Northern California

Audit Subject & Location	R/ NR	INS/ SI/ TPA	Number of Files Audited					# of Times Cited	Total \$ Penalties Assessed	Reductions as a Result of Appeal	Total \$ Amount Collected	Balance \$ Due	Appealed	
			Indem- nity	Medical Only	Denied	Com- plaints	Add- tional						Y	N
ACE USA / ESIS, Inc / Fremont	R	INS	130	66	61	8	8	376	\$64,415	\$0	\$64,415	\$0		1
Allied Grp Ins / Nationwide Ins Co / Santa Rosa	R	INS	32	32	26	0	1	51	\$8,480	\$0	\$8,480	\$0		1
Argonaut Ins Co / Fresno	R	INS	51	54	35	0	3	48	\$4,520	\$0	\$4,520	\$0		1
City of Sacramento / Sacramento	R	SI	54	61	54	1	0	30	\$2,450	\$0	\$2,450	\$0		1
Contra Costa Co Risk Mgmt Auth / Walnut Creek	R	SI	48	56	36	0	1	18	\$1,695	\$0	\$1,695	\$0		1
Gallagher Bassett Svcs / Sacramento	NR	TPA	134	0	0	15	6	244	\$47,290	\$0	\$47,290	\$0		1
Georgia Pacific Corp / Portland, OR	R	SI	59	47	27	0	2	136	\$28,460	\$0	\$28,460	\$0		1
GuideOne Ins Co / Rocklin	R	INS	50	60	31	0	6	60	\$7,070	\$0	\$7,070	\$0		1
ICW Grp / Sacramento	R	INS	56	65	47	8	0	113	\$25,480	\$0	\$25,480	\$0		1
Innovative Claim Solutions, Inc / Rancho Cordova	R	TPA	127	66	59	8	0	287	\$47,340	\$0	\$47,340	\$0		1
Keenan & Associates / Redwood City	R	TPA	53	59	30	0	0	61	\$7,480	\$0	\$7,480	\$0		1
Keenan & Associates / San Jose	R	TPA	55	64	39	1	0	76	\$11,310	\$0	\$11,310	\$0		1
Octagon Risk Services / Oakland	R	TPA	52	59	31	1	0	52	\$8,340	\$0	\$8,340	\$0		1
Pacific Gas & Electric Co / San Francisco	R	SI	57	65	60	11	0	125	\$15,630	\$0	\$15,630	\$0		1
Petroleum Casualty Co / Houston, TX	R	INS	31	38	25	0	0	48	\$9,090	\$0	\$9,090	\$0		1

Exhibit 1B

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Calendar Year 2002
Penalty Assessments and Collections
Northern California

Audit Subject & Location	R/ NR	INS/ SI/ TPA	Number of Files Audited					# of Times Cited	Total \$ Penalties Assessed	Reductions as a Result of Appeal	Total \$ Amount Collected	Balance \$ Due	Appealed	
			Indem- nity	Medical Only	Denied	Com- plaints	Add- tional						Y	N
RSKCo Claims Services / San Bruno	R	TPA	55	63	36	20	5	305	\$42,640	\$0	\$42,640	\$0		1
Santa Clara Co Central Fire Dist / San Jose	R	SI	36	27	23	0	0	66	\$8,565	\$0	\$8,565	\$0		1
Sentry Ins Co / Scottsdale, AZ	R	INS	52	62	40	2	22	106	\$19,160	\$0	\$19,160	\$0		1
Sentry Ins Co / Stevens Point, WI	R	INS	122	66	53	6	5	332	\$56,440	\$0	\$0	\$56,440		1
State Comp Ins Fund / Redding	R	INS	58	66	63	8	0	72	\$9,390	\$0	\$9,390	\$0		1
State Comp Ins Fund / Sacramento	R	INS	59	67	65	24	1	397	\$56,520	\$0	\$56,520	\$0		1
State Comp Ins Fund / Stockton	R	INS	59	67	63	0	2	55	\$7,645	\$0	\$7,645	\$0		1
The Cities Grp / Jt Powers Auth / Burlingame	R	SI	43	43	36	1	4	25	\$3,060	\$0	\$3,060	\$0		1
Weyerhaeuser Co / Sacramento	NR	INS	32	0	0	1	0	87	\$11,770	\$0	\$11,770	\$0		1
Zurich North America / Rancho Cordova	R	INS	131	67	55	2	10	381	\$62,075	\$0	\$62,075	\$0		1
TOTAL	25	25	1,636	1,320	995	117	76	3,551	566,315	0	509,875	56,440	0	25

R - Random	23
NR - Non-Random	2
TOTAL	25

SI - Self-Insured Employer	6
INS - Insurer	13
TPA - Third Party Administrator	6
TOTAL	25

Exhibit 1C

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Calendar Year 2002**Penalty Assessments and Collections****Southern California**

Audit Subject & Location	R/ NR	INS/ SI/ TPA	Number of Files Audited					# of Times Cited	Total \$ Penalties Assessed	Reductions as a Result of Appeal	Total \$ Amount Collected	Balance \$ Due	Appeals	
			Indem- nity	Medical Only	Denied	Com- plaints	Add- itional						Y	N
99 Cents Only Stores / City of Commerce	R	SI	84	64	32	1	18	1865	\$289,015	\$0	\$0	\$289,015	1	
Cambridge Integrated Srvc Grp / Ontario	NR	TPA	128	0	0	9	0	682	\$88,030	\$0	\$88,030	\$0		1
Cambridge Integrated / City of LA /Pasadena	NR	TPA	0	0	0	65	4	1085	\$115,875	\$0	\$115,875	\$0		1
City of Santa Ana / Santa Ana	R	SI	50	58	31	1	0	38	\$2,810	\$0	\$2,810	\$0		1
Constitution State Srvc / Diamond Bar	R	TPA	57	66	60	4	0	229	\$34,970	\$0	\$34,970	\$0		1
Co of San Bernardino Risk Mgmt / San Bernardino	R	SI	123	65	56	4	0	375	\$54,945	\$0	\$54,945	\$0		1
Eagle Ins Companies / Orange	R	INS	55	62	47	3	0	181	\$31,835	\$0	\$31,835	\$0		1
Fleming & Associates / Glendale	R	TPA	58	66	56	23	7	259	\$69,045	\$0	\$69,045	\$0		1
Frank Gates Service Co / Chula Vista	R	TPA	78	55	19	2	0	341	\$40,540	\$0	\$40,540	\$0		1
Frank Gates Service Co / Riverside	R	TPA	39	37	21	0	2	77	\$12,705	\$0	\$12,705	\$0		1
Fremont General Corp / Glendale	R	INS	59	67	64	17	5	119	\$23,395	\$0	\$23,395	\$0		1
Fremont Comp Ins Co / Newbury Park	R	INS	57	66	56	9	4	152	\$25,670	\$0	\$25,670	\$0		1
Golden Eagle Ins Corp / San Diego	NR	INS	0	0	0	34	0	103	\$6,950	\$0	\$6,950	\$0		1
Gulf Ins Group / Irving, TX	NR	INS	96	0	0	0	0	371	\$74,485	\$0	\$74,485	\$0		1
Highlands Ins Grp / Tustin	R	INS	129	66	52	7	0	342	\$53,780	\$0	\$53,780	\$0		1
Majestic Ins Co / San Diego	R	INS	38	52	12	0	0	79	\$7,905	\$0	\$7,905	\$0		1
Sedgwick Claims Mgmt Srvc / Louisville, KY	R	TPA	45	60	19	2	2	152	\$30,840	\$0	\$30,840	\$0		1
Sempra Energy Corp / SDG & E / San Diego	R	SI	45	57	34	1	3	120	\$12,170	\$0	\$12,170	\$0		1
Sierra Ins Grp / Las Vegas, NV	NR	INS	58	0	0	18	0	207	\$41,355	\$0	\$41,355	\$0		1

Exhibit 1C

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Calendar Year 2002
Penalty Assessments and Collections
Southern California

Audit Subject & Location	R/ NR	INS/ SI/ TPA	Number of Files Audited					# of Times Cited	Total \$ Penalties Assessed	Reductions as a Result of Appeal	Total \$ Amount Collected	Balance \$ Due	Appeals	
			Indem- nity	Medical Only	Denied	Com- plaints	Add- itional						Y	N
State Comp Ins Fund / Glendale	NR	INS	59	0	0	1	6	59	\$8,080	\$0	\$8,080	\$0		1
State Comp Ins Fund / Oxnard	R	INS	58	66	62	6	1	106	\$15,455	\$0	\$15,455	\$0		1
State Comp Ins Fund / Riverside	R	INS	58	61	66	7	0	109	\$14,080	\$0	\$14,080	\$0		1
State Comp Ins Fund - Contract Claims / Riverside	R	TPA	59	66	65	11	0	109	\$29,935	\$0	\$29,935	\$0		1
State Comp Ins Fund / San Bernardino	R	INS	134	66	62	11	0	420	\$52,795	\$0	\$52,795	\$0		1
State Comp Ins Fund Contract Claims / Santa Ana	R	TPA	44	48	15	0	0	31	\$5,160	\$0	\$5,160	\$0		1
Tri Star Risk Mgmt / Signal Hill	R	TPA	55	63	37	4	6	208	\$37,125	\$0	\$37,125	\$0		1
Vons Companies, Inc / Arcadia	R	SI	122	65	60	3	26	590	\$117,945	\$0	\$117,945	\$0		1
Ward North America, Inc / San Diego	NR	TPA	38	0	0	0	0	110	\$21,895	\$0	\$21,895	\$0		1
Ward North America, Inc / Tustin	R	TPA	59	40	15	0	0	117	\$19,015	\$0	\$19,015	\$0		1
Zurich Srves Corp / Woodland Hills	R	TPA	117	63	56	3	9	467	\$100,770	\$0	\$100,770	\$0		1
TOTAL	30	30	2,002	1,379	997	246	93	9,103	1,438,575	0	1,149,560	289,015	1	29

R - Random 23
NR - Non-Random 7
TOTAL 30

INS - Insurer 12
SI - Self-Insured Employer 5
TPA - Third Party Administrator 13
TOTAL 30

Calendar Year 2002

**Audit Subjects which did not Merit Return,
Non-Random Audits based on Audit Results**

Audit Subject & Location	R/ NR	INS/ SI/ TPA	Number of Files Audited					# of Times Cited	Total \$ Penalties Assessed	Reductions as a Result of Appeal	Total \$ Amount Collected	Balance \$ Due	Appeals	
			Indem- nity	Medical Only	Denied	Com- plaints	Add- itional						Y	N
Allied Group Ins / Nationwide Ins Co / Santa Rosa	R	INS	32	32	26	0	1	51	\$8,480	\$0	\$8,480	\$0		1
Argonaut Ins Co / Fresno	R	INS	51	54	35	0	3	48	\$4,520	\$0	\$4,520	\$0		1
City of Sacramento / Sacramento	R	SI	54	61	54	1	0	30	\$2,450	\$0	\$2,450	\$0		1
City of Santa Ana / Santa Ana	R	SI	50	58	31	1	0	38	\$2,810	\$0	\$2,810	\$0		1
Constitution State Svc / Diamond Bar	R	TPA	57	66	60	4	0	229	\$34,970	\$0	\$34,970	\$0		1
Cotra Costa Co Risk Mgmt Auth / Walnut Creek	R	SI	48	56	36	0	1	18	\$1,695	\$0	\$1,695	\$0		1
Co of San Bernardino Risk Mgmt / San Bernardino	R	SI	123	65	56	4	0	375	\$54,945	\$0	\$54,945	\$0		1
Eagle Ins Companies / Orange	R	INS	55	62	47	3	0	181	\$31,835	\$0	\$31,835	\$0		1
Fleming & Associates / Glendale	R	TPA	58	66	56	23	7	259	\$69,045	\$0	\$69,045	\$0		1
Fremont General Corp / Glendale	R	INS	59	67	64	17	5	119	\$23,395	\$0	\$23,395	\$0		1
Fremont Comp Ins Co / Newbury Park	R	INS	57	66	56	9	4	152	\$25,670	\$0	\$25,670	\$0		1
Gallagher Bassett Svcs / Sacramento	NR	TPA	134	0	0	15	6	244	\$47,290	\$0	\$47,290	\$0		1
Georgia Pacific Corp / Portland, OR	R	SI	59	47	27	0	2	136	\$28,460	\$0	\$28,460	\$0		1
GuideOne Ins Co / Rocklin	R	INS	50	60	31	0	6	60	\$7,070	\$0	\$7,070	\$0		1
ICW Grp / Sacramento	R	INS	56	65	47	8	0	113	\$25,480	\$0	\$25,480	\$0		1
Innovative Claim Solutions, Inc / Rancho Cordova	R	TPA	127	66	59	8	0	287	\$47,340	\$0	\$47,340	\$0		1
Keenan & Associates / Redwood City	R	TPA	53	59	30	0	0	62	\$7,480	\$0	\$7,480	\$0		1
Keenan & Associates / San Jose	R	TPA	55	64	39	1	0	76	\$11,310	\$0	\$11,310	\$0		1
Majestic Ins Co / San Diego	R	INS	38	52	12	0	0	79	\$7,905	\$0	\$7,905	\$0		1
Octagon Risk Services / Oakland	R	TPA	52	59	31	1	0	52	\$8,340	\$0	\$8,340	\$0		1

Calendar Year 2002

**Audit Subjects which did not Merit Return,
Non-Random Audits based on Audit Results**

Pacific Gas & Electric Co / San Francisco	R	SI	57	65	60	11	0	125	\$15,630	\$0	\$15,630	\$0		1
Petroleum Casualty Co / Houston, TX	R	INS	31	38	25	0	0	48	\$9,090	\$0	\$9,090	\$0		1
RSKCo Claims Services / San Bruno	R	TPA	55	63	36	20	5	305	\$42,640	\$0	\$42,640	\$0		1
Santa Clara Co Central Fire Dist / San Jose	R	SI	36	27	23	0	0	66	\$8,565	\$0	\$8,565	\$0		1
Sempra Energy Corp / SDG & E / San Diego	R	SI	45	57	34	1	3	120	\$12,170	\$0	\$12,170	\$0		1
Sentry Ins Co / Scottsdale, AZ	R	INS	52	62	40	2	22	106	\$19,160	\$0	\$19,160	\$0		1
Sentry Ins Co / Stevens Point, WI	R	INS	122	66	53	6	5	332	\$56,440	\$0	\$0	\$56,440		1
Sierra Ins Grp / Las Vegas, NV	NR	INS	58	0	0	18	0	203	\$41,355	\$0	\$41,355	\$0		1
State Comp Ins Fund / Oxnard	R	INS	58	66	62	6	1	106	\$15,455	\$0	\$15,455	\$0		1
State Comp Ins Fund / Redding	R	INS	58	66	63	8	0	72	\$9,390	\$0	\$9,390	\$0		1
State Comp Ins Fund / Riverside	R	INS	58	61	66	7	0	109	\$14,080	\$0	\$14,080	\$0		1
State Comp Ins Fund - Contract Claims / Riverside	R	TPA	59	66	65	11	0	109	\$29,935	\$0	\$29,935	\$0		1
State Comp Ins Fund / Sacramento	R	INS	59	67	65	24	1	397	\$56,520	\$0	\$56,520	\$0		1
State Comp Ins Fund / San Bernardino	R	INS	134	66	62	11	0	420	\$52,795	\$0	\$52,795	\$0		1
State Comp Ins Fund Contract Claims / Santa Ana	R	TPA	44	48	15	0	0	31	\$5,160	\$0	\$5,160	\$0		1
State Comp Ins Fund / Stockton	R	INS	59	67	63	0	2	55	\$7,645	\$0	\$7,645	\$0		1
The Cities Grp / Jt Powers Auth / Burlingame	R	SI	43	43	36	1	4	25	\$3,060	\$0	\$3,060	\$0		1
Tri Star Risk Mgmt / Signal Hill	R	TPA	55	63	37	4	6	208	\$37,125	\$0	\$37,125	\$0		1
Ward North America, Inc / San Diego	NR	TPA	38	0	0	0	0	110	\$21,895	\$0	\$21,895	\$0		1
Ward North America, Inc / Tustin	R	TPA	59	40	15	0	0	117	\$19,015	\$0	\$19,015	\$0		1
Weyerhaeuser Co / Sacramento	NR	INS	32	0	0	1	0	87	\$11,770	\$0	\$11,770	\$0		1
TOTAL	41	41	2,480	2,156	1,617	226	84	5,760	939,385	0	882,945	56,440	0	41

Exhibit 1E

Calendar Year 2002

**Audit Subjects which Merited Return,
Non-Random Audits based on Audit Results**

Audit Subject & Location	R/ NR	INS/ SI/ TPA	Number of Files Audited					# of Times Cited	Total \$ Penalties Assessed	Reductions as a Result of Appeal	Total \$ Amount Collected	Balance \$ Due	Appeals	
			Indem- nity	Medical Only	Denied	Com- plaints	Add- itional						Y	N
99 Cents Only Stores / City of Commerce	R	SI	84	64	32	1	18	1865	\$289,015	\$0	\$0	\$289,015	1	
ACE USA / ESIS, Inc / Fremont	R	INS	130	66	61	8	8	376	\$64,415	\$0	\$64,415	\$0		1
Cambridge Integrated Srvc Grp / Ontario	NR	TPA	128	0	0	9	0	682	\$88,030	\$0	\$88,030	\$0		1
Frank Gates Service Co / Chula Vista	R	TPA	78	55	19	2	0	341	\$40,540	\$0	\$40,540	\$0		1
Frank Gates Service Co / Riverside	R	TPA	39	37	21	0	2	77	\$12,705	\$0	\$12,705	\$0		1
Gulf Ins Group / Irving, TX	NR	INS	96	0	0	0	0	371	\$74,485	\$0	\$74,485	\$0		1
Highlands Ins Grp / Tustin	R	INS	129	66	52	7	0	342	\$53,780	\$0	\$53,780	\$0		1
Sedgwick Claims Mngmt Srvc / Louisville, KY	R	TPA	45	60	19	2	2	152	\$30,840	\$0	\$30,840	\$0		1
Vons Companies, Inc / Arcadia	R	SI	122	65	60	3	26	590	\$117,945	\$0	\$117,945	\$0		1
Zurich North America / Rancho Cordova	R	INS	131	67	55	2	10	381	\$62,075	\$0	\$62,075	\$0		1
Zurich Srvc Corp / Woodland Hills	R	TPA	117	63	56	3	9	467	\$100,770	\$0	\$100,770	\$0		1
TOTAL	11	11	1,099	543	375	37	75	5,644	934,600	0	645,585	289,015	1	10

Exhibit 2A

Calendar Year 2002

Penalty Assessments and Collections

Audit Subjects by Methods of Selection

TYPE OF RANDOM AUDIT SUBJECT	# of Audits	Number of Files Audited					# of Times Cited	Total \$ Penalties Assessed	Reductions as a Result of Appeal	Total \$ Amount Collected	Balance \$ Due	Appealed	
		Indem- nity	Medical Only	Denied	Com- plaints	Add- itional						Y	N
Insurer	20	1,419	1,216	985	118	68	3,547	\$555,200	\$0	\$498,760	\$56,440	0	20
Self-insured Employer	11	721	608	449	23	54	3,388	\$536,745	\$0	\$247,730	\$289,015	1	10
Third-party Administrator	15	953	875	558	79	31	2,771	\$497,215	\$0	\$497,215	\$0	0	15
TOTAL	46	3,093	2,699	1,992	220	153	9,706	\$1,589,160	\$0	\$1,243,705	\$345,455	1	45

TYPE OF NON-RANDOM AUDIT SUBJECT	# of Audits	Number of Files Audited					# of Times Cited	Total \$ Penalties Assessed	Reductions as a Result of Appeal	Total \$ Amount Collected	Balance \$ Due	Appealed	
		Indem- nity	Medical Only	Denied	Com- plaints	Add- itional						Y	N
Insurer	5	245	0	0	54	6	827	\$142,640	\$0	\$142,640	\$0	0	5
Self-insured Employer	0	0	0	0	0	0	0	\$0	\$0	\$0	\$0	0	0
Third-party Administrator	4	300	0	0	89	10	2,121	\$273,090	\$0	\$273,090	\$0	0	4
TOTAL	9	545	0	0	143	16	2,948	\$415,730	\$0	\$415,730	\$0	0	9

TYPE OF AUDIT	# of Audits	Number of Files Audited					# of Times Cited	Total \$ Penalties Assessed	Reductions as a Result of Appeal	Total \$ Amount Collected	Balance \$ Due	Appealed	
		Indem- nity	Medical Only	Denied	Com- plaints	Add- itional						Y	N
Total Random	46	3,093	2,699	1,992	220	153	9,706	\$1,589,160	\$0	\$1,243,705	\$345,455	1	45
Total Non-random	9	545	0	0	143	16	2,948	\$415,730	\$0	\$415,730	\$0	0	9
TOTAL	55	3,638	2,699	1,992	363	169	12,654	\$2,004,890	\$0	\$1,659,435	\$345,455	1	54

Exhibit 2B

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Calendar Year 2002**Penalty Assessments and Collections****Audit Subjects by Type of Claims Administrator**

INSURER	# of Audits	Number of Files Audited					# of Times Cited	Total \$ Penalties Assessed	Reductions as a Result of Appeal	Total \$ Amount Collected	Balance \$ Due	Audits Appealed	
		Indem- nity	Medical Only	Denied	Com- plaints	Add- itional						Y	N
Random	20	1,419	1,216	985	118	68	3,547	\$555,200	\$0	\$498,760	\$56,440	0	20
Non-random	5	245	0	0	54	6	827	\$142,640	\$0	\$142,640	\$0	0	5
TOTAL	25	1664	1216	985	172	74	4374	697840	0	641400	56440	0	25

SELF-INSURED EMPLOYER	# of Audits	Number of Files Audited					# of Times Cited	Total \$ Penalties Assessed	Reductions as a Result of Appeal	Total \$ Amount Collected	Balance \$ Due	Audits Appealed	
		Indem- nity	Medical Only	Denied	Com- plaints	Add- itional						Y	N
Random Non-random	11 0	721 0	608 0	449 0	23 0	54 0	3,388 0	\$536,745 \$0	\$0 \$0	\$247,730 \$0	\$289,015 \$0	1 0	10 0
TOTAL	11	721	608	449	23	54	3388	536745	0	247730	289015	1	10

Exhibit 2B

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Calendar Year 2002

Penalty Assessments and Collections

Audit Subjects by Type of Claims Administrator

THIRD-PARTY ADMINISTRATOR	# of Audits	Number of Files Audited					# of Times Cited	Total \$ Penalties Assessed	Reductions as a Result of Appeal	Total \$ Amount Collected	Balance \$ Due	Audits Appealed	
		Indem- nity	Medical Only	Denied	Com- plaints	Add- itional						Y	N
Random	15	953	875	558	79	31	2,771	\$497,215	\$0	\$497,215	\$0	0	15
Non-random	4	300	0	0	89	10	2,121	\$273,090	\$0	\$273,090	\$0	0	4
TOTAL	19	1,253	875	558	168	41	4,892	770,305	0	770,305	0	0	19

CLAIMS ADMINISTRATOR	# of Audits	Number of Files Audited					# of Times Cited	Total \$ Penalties Assessed	Reductions as a Result of Appeal	Total \$ Amount Collected	Balance \$ Due	Audits Appealed	
		Indem- nity	Medical Only	Denied	Com- plaints	Add- itional						Y	N
Insurer	25	1,664	1,216	985	172	74	4,374	\$697,840	\$0	\$641,400	\$56,440	0	25
Self-insured Employer	11	721	608	449	23	54	3,388	\$536,745	\$0	\$247,730	\$289,015	1	10
Third-party Administrator	19	1,253	875	558	168	41	4,892	\$770,305	\$0	\$770,305	\$0	0	19
TOTAL	55	3,638	2,699	1,992	363	169	12,654	2,004,890	0	1,659,435	345,455	1	54

Key To Exhibit 3B

Administrative Penalty Assessments

Schedule Of Penalties - 2002

Item	Nature of Violations by Category with Maximum Amounts of Penalties
1	For late first payment of temporary disability indemnity: up to \$100, unless the late payment is more than 30 days late, in which case the penalty may be up to \$1,000, depending on the amount of late paid indemnity.
2	For late first payment of permanent disability indemnity: up to \$100, unless the late payment is more than 30 days late, in which case the penalty may be up to \$1,000, depending on the amount of late paid indemnity.
3	For late first payment of VRMA: up to \$100, unless the late payment is more than 30 days late, in which case the penalty may be up to \$1,000, depending on the amount of late paid indemnity.
4	For any late subsequent temporary or permanent disability indemnity or VRMA payments, including failure to pay any indemnity then due when paid with a later payment: up to \$100, unless the late payment is more than 30 days late, in which case the penalty may be up to \$1,000, depending on the amount of late paid indemnity. Penalties for any late payments of self-imposed increases for any late indemnity payments: up to \$25, unless the late payment is more than 30 days late, in which case the penalty may be up to \$100, depending on the amount of unpaid indemnity.
5	For late first payment and any subsequent payments of death benefits: up to \$100, unless the late payment is more than 30 days late, in which case the penalty may be up to \$1,000, depending on the amount of late paid indemnity.
6	For failure to issue benefit notices, other than specified vocational rehabilitation notices for all dates of injury, notices of the procedure to evaluate PD, and denial notices for injuries occurring before 1/1/94: up to \$100.
7	For late provision of benefit notices, other than specified vocational rehabilitation notices for all dates of injury, notices of the procedure to evaluate PD, and denial notices for injuries occurring before 1/1/94: up to \$75, unless the late notice is more than 30 days late, in which case the penalty may be up to \$100.
8	Involving the failure to pay or object to medical expenses within 60 days of receipt of billing: up to \$100.
9	Involving the failure to pay or object to medical-legal expenses within 60 days of receipt of billing: up to \$100.
10	For failure to pay or object to vocational rehabilitation expenses within 60 days of receipt of billing: up to \$100.
11	For injuries before 1/1/94, penalties for failure to assign a qualified rehabilitation representative within 10 days after 90 days of aggregate total disability: up to \$500.
12	For injuries on or after 1/1/94, penalties for failure to provide vocational rehabilitation information to the injured employee as required by Labor Section 4636(a) within 10 days after 90 days of aggregate total disability: up to \$500.
13	For failure to notify the injured employee in a timely manner of potential eligibility for vocational rehabilitation: up to \$500.
14	For failure to notify the injured employee in a timely manner of non-eligibility for vocational rehabilitation: up to \$500.
15	Involving notices of the procedure to evaluate PD for injuries occurring on or after 1/1/94: up to \$500.
16	Involving notices denying all liability or death benefits for injuries occurring on or after 1/1/94: up to \$500.
17	For failure to timely respond to a request to provide or authorize medical treatment: up to \$100.
18 a	For failure to pay any temporary disability indemnity or salary continuation in lieu of temporary disability indemnity not included in an award or order: up to \$1,000.
18 b	For failure to pay any permanent disability indemnity not included in an award or order: up to \$1,000.
18 c	For failure to pay any voc. rehabilitation maintenance allowance not included in an award or order: up to \$1,000.
18 d	For failure to pay any self-imposed increase for late indemnity payments: up to \$100.
18 e	For failure to pay any indemnity as ordered by WCAB Order or Award or Rehabilitation Unit Order: up to \$5,000.
18 f	For any other unpaid indemnity, including but not limited to the following: up to \$500 for the failure to pay any interest on a WCAB Order or Award and up to \$1,000 for the failure to pay any death benefits.
19	For failure to include items or properly designate entries on a claim log: up to \$100.
20 a	For materially incomplete or inaccurate benefit notices, other than specified vocational rehabilitation notices, for all dates of injury: up to \$25. Penalties for materially incomplete or inaccurate notices of denial of all liability for injuries occurring on or after 1/1/94: up to \$500.
20 b	For failure to investigate: up to \$1,000.
20 c	For late payment of WCAB Orders or Awards or Rehabilitation Unit Orders: up to \$1,000.
20 d	Other penalties, including failure to comply with Decisions or Orders of the WCAB or Rehab. Unit not involving the payment of indemnity: from \$25 to \$5,000, depending on the nature of the violation.
21	Unsupported denial of liability for a claim: up to \$5,000.

Exhibit 3B

Calendar Year 2002
Frequency of Penalties Cited by Type of Penalty
Statewide Summary

Item Number	Number of Times Cited	Total \$ Penalties Assessed
1	712	\$99,325
2	195	\$52,275
3	26	\$5,750
4	1,053	\$131,505
5	3	\$220
6	1,672	\$160,560
7	1,213	\$70,885
8	3,110	\$227,045
9	287	\$21,915
10	26	\$1,390
11	4	\$1,800
12	529	\$218,760
13	379	\$148,000
14	65	\$27,620
15	502	\$205,770
16	25	\$6,500
17	3	\$260
18a	307	\$120,320
18b	108	\$61,980
18c	26	\$14,680
18d	451	\$36,590
18e	33	\$27,800
18f	25	\$14,640
19	237	\$15,855
20a	684	\$24,425
20b	46	\$24,420
20c	69	\$114,930
20d	844	\$106,670
21	20	\$63,000
TOTAL	12,654	\$2,004,890

Exhibit 4

Calendar Year 2002
Notices of Compensation Due
Statewide Summary

	Temporary Disability	Permanant Disability	VRMA	Self- imposed Increase	Death Benefits	Penalty interest, or other	Total
No. California	\$62,823.86	\$156,141.41	\$5,330.05	\$31,204.02	\$0.00	\$6,240.10	\$261,739.44
So. California	\$327,070.19	\$155,449.62	\$38,999.78	\$60,039.42	\$0.00	\$7,086.91	\$588,645.92
TOTAL	\$389,894.05	\$311,591.03	\$44,329.83	\$91,243.44	\$0.00	\$13,327.01	\$850,385.36

Exhibit 5A**Calendar Year 2002****Frequency of Assessments
In Randomly Selected Audited Files****Statewide Summary For All Audit Subjects**

Item No.	Violations Related To:	# Of Audited Files With Exposure For Assessments	# Of Audited Files With Assessments	% Of Files With Assessments
1	Late First Pay Of TD	2,091	597	28.55%
2	Late First Pay Of PD	890	154	17.30%
3	Late First Pay Of VRMA	263	15	5.70%
4	Late Subsequent Indemnity Pay	1,699	456	26.84%
5	Late Pay Of Death Benefits	7	2	28.57%
6	Fail To Issue Ben. Notices (Indem.,Delay)	3,580	948	26.48%
7	Late Ben. Notices (Indem.,Delay)	3,558	869	24.42%
8	Fail To Pay or Object To Med. Expenses w/in 60 Days	2,252	332	14.74%
9	Fail To Pay or Object To M/L Expenses w/in 60 Days	1,371	87	6.35%
10	Fail To Pay or Object To VR Expenses w/in 60 Days	443	15	3.39%
11	Fail To Assign QRR After 90 Days of TD	3	0	0.00%
12	Fail To Issue Notice of VR Rights After 90 Days of TD	854	459	53.75%
13	Fail To Notify Employee of Med. Elig. for VR as Req.	573	303	52.88%
14	Fail To Notify Employee of Non-Elig. for VR as Req.	204	59	28.92%
15	Fail To Notify Employee of Procedure to Eval. PD	2,184	458	20.97%
16	Fail To Issue Denial Notice as Req.	2,012	23	1.14%
17	Fail To Respond Timely To Med. Treatment Request	N.A.	0	N.A.
18	Unpaid Indemnity	2,972	503	16.92%
19	Claim Log Violations (# of Entries and Violations)	251,727	154	0.06%
20	Other Assessments	10,713	717	6.69%
21	Unsupported Denials	1,789	17	0.95%

Calendar Year 2002

**Frequency of Assessments
In Randomly Selected Audited Files**

**Statewide Summary For All
Randomly Selected Audit Subjects**

Item No.	Violations Related To:	# Of Audited Files With Exposure For Assessments	# Of Audited Files With Assessments	% Of Files With Assessments
1	Late First Pay Of TD	1,753	462	26.35%
2	Late First Pay Of PD	792	131	16.54%
3	Late First Pay Of VRMA	231	10	4.33%
4	Late Subsequent Indemnity Pay	1,485	390	26.26%
5	Late Pay Of Death Benefits	7	2	28.57%
6	Fail To Issue Ben. Notices (Indem.,Delay)	3,173	810	25.53%
7	Late Ben. Notices (Indem.,Delay)	3,153	761	24.14%
8	Fail To Pay or Object To Med. Expenses w/in 60 Days	2,002	282	14.09%
9	Fail To Pay or Object To M/L Expenses w/in 60 Days	1,264	78	6.17%
10	Fail To Pay or Object To VR Expenses w/in 60 Days	389	12	3.08%
11	Fail To Assign QRR After 90 Days of TD	3	0	0.00%
12	Fail To Issue Notice of VR Rights After 90 Days of TD	739	388	52.50%
13	Fail To Notify Employee of Med. Elig. for VR as Req.	495	255	51.52%
14	Fail To Notify Employee of Non-Elig. for VR as Req.	174	54	31.03%
15	Fail To Notify Employee of Procedure to Eval. PD	1,907	391	20.50%
16	Fail To Issue Denial Notice as Req.	1,997	23	1.15%
17	Fail To Respond Timely To Med. Treatment Request	N.A.	0	N.A.
18	Unpaid Indemnity	2,587	423	16.35%
19	Claim Log Violations (# of Entries and Violations)	243,193	132	0.05%
20	Other Assessments	10,168	613	6.03%
21	Unsupported Denials	1,784	17	0.95%

Exhibit 5C**Calendar Year 2002**

**Frequency of Assessments
In Randomly Selected Audited Files**

**Statewide Summary For All
Non-randomly Selected Audit Subjects**

Item No.	Violations Related To:	# Of Audited Files With Exposure For Assessments	# Of Audited Files With Assessments	% Of Files With Assessments
1	Late First Pay Of TD	338	135	39.94%
2	Late First Pay Of PD	98	23	23.47%
3	Late First Pay Of VRMA	32	5	15.63%
4	Late Subsequent Indemnity Pay	214	66	30.84%
5	Late Pay Of Death Benefits	0	0	0.00%
6	Fail To Issue Ben. Notices (Indem.,Delay)	407	138	33.91%
7	Late Ben. Notices (Indem.,Delay)	405	108	26.67%
8	Fail To Pay or Object To Med. Expenses w/in 60 Days	250	50	20.00%
9	Fail To Pay or Object To M/L Expenses w/in 60 Days	107	9	8.41%
10	Fail To Pay or Object To VR Expenses w/in 60 Days	54	3	5.56%
11	Fail To Assign QRR After 90 Days of TD	0	0	0.00%
12	Fail To Issue Notice of VR Rights After 90 Days of TD	115	71	61.74%
13	Fail To Notify Employee of Med. Elig. for VR as Req.	78	48	61.54%
14	Fail To Notify Employee of Non-Elig. for VR as Req.	30	5	16.67%
15	Fail To Notify Employee of Procedure to Eval. PD	277	67	24.19%
16	Fail To Issue Denial Notice as Req.	15	0	0.00%
17	Fail To Respond Timely To Med. Treatment Request	N.A.	0	N.A.
18	Unpaid Indemnity	385	80	20.78%
19	Claim Log Violations (# of Entries and Violations)	8,534	22	0.26%
20	Other Assessments	545	104	19.08%
21	Unsupported Denials	5	0	0.00%

Exhibit 5D**Calendar Year 2002**

**Frequency of Assessments
In Randomly Selected Audited Files**

**Statewide Summary For All Insurers,
Regardless of Method of Selection**

Item No.	Violations Related To:	# Of Audited Files With Exposure For Assessments	# Of Audited Files With Assessments	% Of Files With Assessments
1	Late First Pay Of TD	1,175	339	28.85%
2	Late First Pay Of PD	383	68	17.75%
3	Late First Pay Of VRMA	132	8	6.06%
4	Late Subsequent Indemnity Pay	837	200	23.89%
5	Late Pay Of Death Benefits	7	2	28.57%
6	Fail To Issue Ben. Notices (Indem.,Delay)	1,685	438	25.99%
7	Late Ben. Notices (Indem.,Delay)	1,674	338	20.19%
8	Fail To Pay or Object To Med. Expenses w/in 60 Days	1,056	131	12.41%
9	Fail To Pay or Object To M/L Expenses w/in 60 Days	636	28	4.40%
10	Fail To Pay or Object To VR Expenses w/in 60 Days	196	9	4.59%
11	Fail To Assign QRR After 90 Days of TD	0	0	0.00%
12	Fail To Issue Notice of VR Rights After 90 Days of TD	378	193	51.06%
13	Fail To Notify Employee of Med. Elig. for VR as Req.	284	146	51.41%
14	Fail To Notify Employee of Non-Elig. for VR as Req.	108	21	19.44%
15	Fail To Notify Employee of Procedure to Eval. PD	986	191	19.37%
16	Fail To Issue Denial Notice as Req.	984	10	1.02%
17	Fail To Respond Timely To Med. Treatment Request	N.A.	0	N.A.
18	Unpaid Indemnity	1,430	218	15.24%
19	Claim Log Violations (# of Entries and Violations)	181,231	56	0.03%
20	Other Assessments	3,768	278	7.38%
21	Unsupported Denials	928	6	0.65%

Calendar Year 2002

**Frequency of Assessments
In Randomly Selected Audited Files**

**Statewide Summary For All
Randomly Selected Insurers**

Item No.	Violations Related To:	# Of Audited Files With Exposure For Assessments	# Of Audited Files With Assessments	% Of Files With Assessments
1	Late First Pay Of TD	998	278	27.86%
2	Late First Pay Of PD	342	59	17.25%
3	Late First Pay Of VRMA	122	6	4.92%
4	Late Subsequent Indemnity Pay	745	181	24.30%
5	Late Pay Of Death Benefits	7	2	28.57%
6	Fail To Issue Ben. Notices (Indem.,Delay)	1,490	374	25.10%
7	Late Ben. Notices (Indem.,Delay)	1,481	303	20.46%
8	Fail To Pay or Object To Med. Expenses w/in 60 Days	924	110	11.90%
9	Fail To Pay or Object To M/L Expenses w/in 60 Days	585	20	3.42%
10	Fail To Pay or Object To VR Expenses w/in 60 Days	180	8	4.44%
11	Fail To Assign QRR After 90 Days of TD	0	0	0.00%
12	Fail To Issue Notice of VR Rights After 90 Days of TD	332	169	50.90%
13	Fail To Notify Employee of Med. Elig. for VR as Req.	248	124	50.00%
14	Fail To Notify Employee of Non-Elig. for VR as Req.	92	18	19.57%
15	Fail To Notify Employee of Procedure to Eval. PD	865	160	18.50%
16	Fail To Issue Denial Notice as Req.	982	10	1.02%
17	Fail To Respond Timely To Med. Treatment Request	N.A.	0	N.A.
18	Unpaid Indemnity	1,234	177	14.34%
19	Claim Log Violations (# of Entries and Violations)	179,755	54	0.03%
20	Other Assessments	3,523	233	6.61%
21	Unsupported Denials	928	6	0.65%

Exhibit 5F**Calendar Year 2002**

**Frequency of Assessments
In Randomly Selected Audited Files**

**Statewide Summary For All
Non-randomly Selected Insurers**

Item No.	Violations Related To:	# Of Audited Files With Exposure For Assessments	# Of Audited Files With Assessments	% Of Files With Assessments
1	Late First Pay Of TD	177	61	34.46%
2	Late First Pay Of PD	41	9	21.95%
3	Late First Pay Of VRMA	10	2	20.00%
4	Late Subsequent Indemnity Pay	92	19	20.65%
5	Late Pay Of Death Benefits	0	0	0.00%
6	Fail To Issue Ben. Notices (Indem.,Delay)	195	64	32.82%
7	Late Ben. Notices (Indem.,Delay)	193	35	18.13%
8	Fail To Pay or Object To Med. Expenses w/in 60 Days	132	21	15.91%
9	Fail To Pay or Object To M/L Expenses w/in 60 Days	51	8	15.69%
10	Fail To Pay or Object To VR Expenses w/in 60 Days	16	1	6.25%
11	Fail To Assign QRR After 90 Days of TD	0	0	0.00%
12	Fail To Issue Notice of VR Rights After 90 Days of TD	46	24	52.17%
13	Fail To Notify Employee of Med. Elig. for VR as Req.	36	22	61.11%
14	Fail To Notify Employee of Non-Elig. for VR as Req.	16	3	18.75%
15	Fail To Notify Employee of Procedure to Eval. PD	121	31	25.62%
16	Fail To Issue Denial Notice as Req.	2	0	0.00%
17	Fail To Respond Timely To Med. Treatment Request	N.A.	0	N.A.
18	Unpaid Indemnity	196	41	20.92%
19	Claim Log Violations (# of Entries and Violations)	1,476	2	0.14%
20	Other Assessments	245	45	18.37%
21	Unsupported Denials	0	0	0.00%

Calendar Year 2002

**Frequency of Assessments
In Randomly Selected Audited Files**

**Statewide Summary For All Self-insured
Employers, Regardless of Method of Selection**

Item No.	Violations Related To:	# Of Audited Files With Exposure For Assessments	# Of Audited Files With Assessments	% Of Files With Assessments
1	Late First Pay Of TD	321	64	19.94%
2	Late First Pay Of PD	257	42	16.34%
3	Late First Pay Of VRMA	61	1	1.64%
4	Late Subsequent Indemnity Pay	357	98	27.45%
5	Late Pay Of Death Benefits	0	0	0.00%
6	Fail To Issue Ben. Notices (Indem.,Delay)	772	197	25.52%
7	Late Ben. Notices (Indem.,Delay)	767	195	25.42%
8	Fail To Pay or Object To Med. Expenses w/in 60 Days	573	111	19.37%
9	Fail To Pay or Object To M/L Expenses w/in 60 Days	360	37	10.28%
10	Fail To Pay or Object To VR Expenses w/in 60 Days	98	3	3.06%
11	Fail To Assign QRR After 90 Days of TD	0	0	0.00%
12	Fail To Issue Notice of VR Rights After 90 Days of TD	206	104	50.49%
13	Fail To Notify Employee of Med. Elig. for VR as Req.	130	69	53.08%
14	Fail To Notify Employee of Non-Elig. for VR as Req.	47	23	48.94%
15	Fail To Notify Employee of Procedure to Eval. PD	465	116	24.95%
16	Fail To Issue Denial Notice as Req.	452	5	1.11%
17	Fail To Respond Timely To Med. Treatment Request	N.A.	0	N.A.
18	Unpaid Indemnity	621	121	19.48%
19	Claim Log Violations (# of Entries and Violations)	17,613	19	0.11%
20	Other Assessments	1,778	167	9.39%
21	Unsupported Denials	416	5	1.20%

Exhibit 5H**Calendar Year 2002****Frequency of Assessments
In Randomly Selected Audited Files****Statewide Summary For All
Randomly Selected Self-insured Employers**

Item No.	Violations Related To:	# Of Audited Files With Exposure For Assessments	# Of Audited Files With Assessments	% Of Files With Assessments
1	Late First Pay Of TD	321	64	19.94%
2	Late First Pay Of PD	257	42	16.34%
3	Late First Pay Of VRMA	61	1	1.64%
4	Late Subsequent Indemnity Pay	357	98	27.45%
5	Late Pay Of Death Benefits	0	0	0.00%
6	Fail To Issue Ben. Notices (Indem.,Delay)	772	197	25.52%
7	Late Ben. Notices (Indem.,Delay)	767	195	25.42%
8	Fail To Pay or Object To Med. Expenses w/in 60 Days	573	111	19.37%
9	Fail To Pay or Object To M/L Expenses w/in 60 Days	360	37	10.28%
10	Fail To Pay or Object To VR Expenses w/in 60 Days	98	3	3.06%
11	Fail To Assign QRR After 90 Days of TD	0	0	0.00%
12	Fail To Issue Notice of VR Rights After 90 Days of TD	206	104	50.49%
13	Fail To Notify Employee of Med. Elig. for VR as Req.	130	69	53.08%
14	Fail To Notify Employee of Non-Elig. for VR as Req.	47	23	48.94%
15	Fail To Notify Employee of Procedure to Eval. PD	465	116	24.95%
16	Fail To Issue Denial Notice as Req.	452	5	1.11%
17	Fail To Respond Timely To Med. Treatment Request	N.A.	0	N.A.
18	Unpaid Indemnity	621	121	19.48%
19	Claim Log Violations (# of Entries and Violations)	17,613	19	0.11%
20	Other Assessments	1,778	167	9.39%
21	Unsupported Denials	416	5	1.20%

Calendar Year 2002

**Frequency of Assessments
In Randomly Selected Audited Files**

**Statewide Summary For All
Non-randomly Selected Self-insured Employers**

There Were NO Self-Insured, Self-Administered Employers That Qualified For Non-random Audits in 2002

Item No.	Violations Related To:	# Of Audited Files With Exposure For Assessments	# Of Audited Files With Assessments	% Of Files With Assessments
1	Late First Pay Of TD	0	0	0.00%
2	Late First Pay Of PD	0	0	0.00%
3	Late First Pay Of VRMA	0	0	0.00%
4	Late Subsequent Indemnity Pay	0	0	0.00%
5	Late Pay Of Death Benefits	0	0	0.00%
6	Fail To Issue Ben. Notices (Indem.,Delay)	0	0	0.00%
7	Late Ben. Notices (Indem.,Delay)	0	0	0.00%
8	Fail To Pay or Object To Med. Expenses w/in 60 Days	0	0	0.00%
9	Fail To Pay or Object To M/L Expenses w/in 60 Days	0	0	0.00%
10	Fail To Pay or Object To VR Expenses w/in 60 Days	0	0	0.00%
11	Fail To Assign QRR After 90 Days of TD	0	0	0.00%
12	Fail To Issue Notice of VR Rights After 90 Days of TD	0	0	0.00%
13	Fail To Notify Employee of Med. Elig. for VR as Req.	0	0	0.00%
14	Fail To Notify Employee of Non-Elig. for VR as Req.	0	0	0.00%
15	Fail To Notify Employee of Procedure to Eval. PD	0	0	0.00%
16	Fail To Issue Denial Notice as Req.	0	0	0.00%
17	Fail To Respond Timely To Med. Treatment Request	N.A.	0	N.A.
18	Unpaid Indemnity	0	0	0.00%
19	Claim Log Violations (# of Entries and Violations)	0	0	0.00%
20	Other Assessments	0	0	0.00%
21	Unsupported Denials	0	0	0.00%

Exhibit 5J**Calendar Year 2002**

**Frequency of Assessments
In Randomly Selected Audited Files**

**Statewide Summary For All Third-party
Administrators, Regardless of Method of Selection**

Item No.	Violations Related To:	# Of Audited Files With Exposure For Assessments	# Of Audited Files With Assessments	% Of Files With Assessments
1	Late First Pay Of TD	595	194	32.61%
2	Late First Pay Of PD	250	44	17.60%
3	Late First Pay Of VRMA	70	6	8.57%
4	Late Subsequent Indemnity Pay	505	158	31.29%
5	Late Pay Of Death Benefits	0	0	0.00%
6	Fail To Issue Ben. Notices (Indem.,Delay)	1,123	313	27.87%
7	Late Ben. Notices (Indem.,Delay)	1,117	336	30.08%
8	Fail To Pay or Object To Med. Expenses w/in 60 Days	623	90	14.45%
9	Fail To Pay or Object To M/L Expenses w/in 60 Days	375	22	5.87%
10	Fail To Pay or Object To VR Expenses w/in 60 Days	149	3	2.01%
11	Fail To Assign QRR After 90 Days of TD	3	0	0.00%
12	Fail To Issue Notice of VR Rights After 90 Days of TD	270	162	60.00%
13	Fail To Notify Employee of Med. Elig. for VR as Req.	159	88	55.35%
14	Fail To Notify Employee of Non-Elig. for VR as Req.	49	15	30.61%
15	Fail To Notify Employee of Procedure to Eval. PD	733	151	20.60%
16	Fail To Issue Denial Notice as Req.	576	8	1.39%
17	Fail To Respond Timely To Med. Treatment Request	N.A.	0	N.A.
18	Unpaid Indemnity	921	164	17.81%
19	Claim Log Violations (# of Entries and Violations)	52,883	79	0.15%
20	Other Assessments	5,167	272	5.26%
21	Unsupported Denials	445	6	1.35%

Calendar Year 2002

**Frequency of Assessments
In Randomly Selected Audited Files**

**Statewide Summary For All
Randomly Selected Third-party Administrators**

Item No.	Violations Related To:	# Of Audited Files With Exposure For Assessments	# Of Audited Files With Assessments	% Of Files With Assessments
1	Late First Pay Of TD	434	120	27.65%
2	Late First Pay Of PD	193	30	15.54%
3	Late First Pay Of VRMA	48	3	6.25%
4	Late Subsequent Indemnity Pay	383	111	28.98%
5	Late Pay Of Death Benefits	0	0	0.00%
6	Fail To Issue Ben. Notices (Indem.,Delay)	911	239	26.23%
7	Late Ben. Notices (Indem.,Delay)	905	263	29.06%
8	Fail To Pay or Object To Med. Expenses w/in 60 Days	505	61	12.08%
9	Fail To Pay or Object To M/L Expenses w/in 60 Days	319	21	6.58%
10	Fail To Pay or Object To VR Expenses w/in 60 Days	111	1	0.90%
11	Fail To Assign QRR After 90 Days of TD	3	0	0.00%
12	Fail To Issue Notice of VR Rights After 90 Days of TD	201	115	57.21%
13	Fail To Notify Employee of Med. Elig. for VR as Req.	117	62	52.99%
14	Fail To Notify Employee of Non-Elig. for VR as Req.	35	13	37.14%
15	Fail To Notify Employee of Procedure to Eval. PD	577	115	19.93%
16	Fail To Issue Denial Notice as Req.	563	8	1.42%
17	Fail To Respond Timely To Med. Treatment Request	N.A.	0	N.A.
18	Unpaid Indemnity	732	125	17.08%
19	Claim Log Violations (# of Entries and Violations)	45,825	59	0.13%
20	Other Assessments	4,867	213	4.38%
21	Unsupported Denials	440	6	1.36%

Calendar Year 2002

**Frequency of Assessments
In Randomly Selected Audited Files**

**Statewide Summary For All
Non-Randomly Selected Third-party Administrators**

Item No.	Violations Related To:	# Of Audited Files With Exposure For Assessments	# Of Audited Files With Assessments	% Of Files With Assessments
1	Late First Pay Of TD	161	74	45.96%
2	Late First Pay Of PD	57	14	24.56%
3	Late First Pay Of VRMA	22	3	13.64%
4	Late Subsequent Indemnity Pay	122	47	38.52%
5	Late Pay Of Death Benefits	0	0	0.00%
6	Fail To Issue Ben. Notices (Indem.,Delay)	212	74	34.91%
7	Late Ben. Notices (Indem.,Delay)	212	73	34.43%
8	Fail To Pay or Object To Med. Expenses w/in 60 Days	118	29	24.58%
9	Fail To Pay or Object To M/L Expenses w/in 60 Days	56	1	1.79%
10	Fail To Pay or Object To VR Expenses w/in 60 Days	38	2	5.26%
11	Fail To Assign QRR After 90 Days of TD	0	0	0.00%
12	Fail To Issue Notice of VR Rights After 90 Days of TD	69	47	68.12%
13	Fail To Notify Employee of Med. Elig. for VR as Req.	42	26	61.90%
14	Fail To Notify Employee of Non-Elig. for VR as Req.	14	2	14.29%
15	Fail To Notify Employee of Procedure to Eval. PD	156	36	23.08%
16	Fail To Issue Denial Notice as Req.	13	0	0.00%
17	Fail To Respond Timely To Med. Treatment Request	N.A.	0	N.A.
18	Unpaid Indemnity	189	39	20.63%
19	Claim Log Violations (# of Entries and Violations)	7,058	20	0.28%
20	Other Assessments	300	59	19.67%
21	Unsupported Denials	5	0	0.00%